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FINANCIAL TIMES

Europe's Business Newspaper

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German business mood gloomiest for 10 years

The mood in German business and industry is gloomier than at any time for 10 years, and talk is openly of recession, according to the annual survey of business opinion by the German chambers of commerce and industry.

"For German business, 1993 will be a tough year," Dr Franz Schöser, chief executive of the chambers, said. "Since the unification boom is over, a recession can no longer be ruled out."

Page 22; Schlesinger calls for pay restraint, Page 2; Kohl and partners agree cuts, Page 2.

Canadian optimism: A spate of encouraging economic statistics has lifted hopes that Canada's recovery is at last on firm ground. Page 23.

Swedes 'reject' EC: A majority of Swedes oppose European Community membership, according to a new poll which found that 58 per cent would vote No if a referendum on the issue were held now. Page 22.

Roach to be buried alongside Mark Twain
Hal Roach, the legendary producer and director of comedy films, who died late on Monday aged 100, is to be buried alongside the writer Mark Twain, whom he knew when he was growing up in New York state. Roach is pictured here with cardboard cutouts of Laurel and Hardy — two of the stars he discovered. Harold Lloyd was another of his protégés.

Travelers' Corporations: Damage claims arising from Hurricane Andrew, which devastated parts of southern Florida in August, helped push the Connecticut-based composite insurer to a \$385m after-tax loss in the third quarter. Page 23.

Powers curb: The cabinet of Chuan Leqian, the Thai prime minister elected in September in the aftermath of a bloody confrontation between the army and pro-democracy forces, revoked laws giving the military sweeping powers. Page 10.

Berlitz: The price of the Princeton-based language school and publishing group's shares slumped by more than 10 per cent after it disclosed that its prospective Japanese buyer was seeking to renegotiate terms. Page 25.

Irish government at risk: The fate of Ireland's coalition government hung in the balance last night after an unprecedented attempt to involve the judiciary in the political row between the two coalition partners. Page 2.

Protester hurt: A man was seriously injured when a British RAF dummy bomb fell into a crowd of German pacifists demonstrating in a military exercise area at Nordhorn, Lower Saxony.

Blow for Labor: Australia's Labor government suffered a serious setback when the left-wing Democrats joined the conservative Liberal and National parties to force a Senate inquiry into government borrowing practices. Page 10.

Panic wins votes: Yugoslavia's prime minister, Milan Panic, narrowly survived a no-confidence vote in the upper house of the federal parliament. Page 3.

Tighter rules: Cosmetics manufacturers in the European Community will be banned from testing their products on animals from January 1 1993, but only if alternative testing methods have been developed. Page 3.

Gatt waits: Trade diplomats from the 105 Gatt signatories meet in Geneva today, on tenterhooks over whether US and EC farm trade negotiators have averted a trade war. Page 8.

Burma's reform moves: The country's military government plans to speed up its economic reforms to attract foreign investment and strengthen the fledgling private sector. Page 10.

Quick promotions: In less than eight months Louis Hughes has moved from being chief executive at Opel to president of GM Europe and now executive vice-president for all GM's international operations. Page 23.

Purchase probes: British Airways' plan to buy just under 50 per cent of the French regional airline Transport Aérien Transrégional is being investigated by the European Commission. Page 3.

Briton holds: An unnamed Briton living in Flensburg, northern Germany, has been arrested on suspicion of illegally dealing with plutonium.

Major rebuffs EC commissioner as crucial vote nears

By Ralph Atkins, Ivo Dawsey and David Owen in London

MR JOHN MAJOR yesterday angrily clashed with a European commissioner over the implications of the Maastricht treaty as the UK cabinet mounted a make-or-break attempt to thwart the rebellion over Europe within the ruling Conservative party.

Fighting to avoid a House of Commons defeat tonight that would gravely undermine Britain's foreign policy, threaten the treaty's future and jeopardise his own career, the prime minister described as "very silly and ill-informed" a speech by Mr Martin Bangemann which described Maastricht as a milestone on the road to a federal Europe.

Mr Bangemann, Germany's senior commissioner, is a vice-president of the European Commission.

British cabinet ministers appear confident of victory tonight — in spite of a resilient group of Tory Euro-sceptics, numbering at least 30, whose leaders were encouraged by the embarrassment Mr Bangemann caused Mr Major.

Pierce lobbying by Mr Major and other senior Tories will continue until the last minute to persuade rebels not to vote against the government, or at least to abstain. Last night it appeared that a possible lifeline may yet come from the nine MPs of the

Ulster Unionist party who, although supposedly anti-Maastricht, may abstain rather than vote against the government.

About 30 Euro-sceptic Conservative MPs met last night to discuss tactics in what will be a battle over a government motion that supports proceeding with ratification of Maastricht and a Labour amendment which would defer debate until after the European summit in Edinburgh in mid-December.

All Conservative MPs are under firm orders to attend Parliament tomorrow, which would allow, if necessary, for debate on a confidence motion that the government would win easily.

But it was clear that Mr Major was annoyed by the timing — if not the content — of Mr Bangemann's speech to a Berlin conference on Europe's future.

Speaking in the Commons, he said Mr Bangemann was "an official" who had not been involved in European summits at Maastricht, Lisbon or Birmingham.

After Downing Street asked for clarification of the speech at lunchtime, the European Commission had made "absolutely clear" these were personal remarks by Mr Bangemann and did not reflect the views of the Commission, Mr Major said.

"Nor, I can assure you, are they my views, the views of this government or the views of any

mainstream government in Europe," he added.

Mr Major was backed last night by Sir Leon Brittan, one of the UK's EC commissioners, who repeated that Mr Bangemann had given "a purely personal view and not speaking for the commission itself".

But Lord Tebbit, the fiercely Euro-sceptic former Conservative party chairman, said the speech confirmed "a vote for Maastricht is a vote for a federal Europe".

The opposition Labour party, moreover, seized on Mr Bangemann's remark that the "subsidiarity" principle — by which decisions are taken at the most appropriate level of government — "presupposes the idea of a federal European state". That reinforced the party's belief that ratification of Maastricht should not proceed until subsidiarity had been further defined at the Edinburgh EC summit.

Mr Jack Cunningham, shadow foreign secretary, said there was "no agreement on what subsidiarity really means in practice or is going to mean". Labour will vote against the government tonight.

Liberal Democrats, who back Maastricht, were cheered by Labour MPs in the Commons yesterday after 19 out of the 20-strong parliamentary party decided to vote with government.

The Maastricht vote, Page 11



Martin Bangemann: challenging UK view of European Community

Bangemann says Maastricht marks road to federal state

By David Gardner in Brussels

THE MAASTRICHT treaty is a milestone along the road to a federal European state, ensuring that "more and more decisions can only be taken at the European level", according to Mr Martin Bangemann, vice-president of the European Commission.

Mr Bangemann, a former German economy minister and Bonn's senior commissioner in Brussels, said the EC must integrate further before it takes in new members, and that the notion of "subsidiarity" — ensuring decisions are taken at the most appropriate level of government — "presupposes the idea of a federal European state".

His remarks, although unexpected from a German federalist and supported by the contents of Maastricht and EC policy, provided ammunition to UK anti-treaty MPs out to defeat Mr John Major's government in tonight's Maastricht vote.

Mr Bangemann, former leader of Germany's liberal Free Democrats, the junior coalition partner in Chancellor Helmut Kohl's government, was speaking at a conference on Europe's future.

His remarks challenge the min-

imalist interpretation of the treaty which Mr Major and Mr Douglas Hurd, the British foreign secretary, have been presenting to their domestic constituencies.

As Mr Bangemann recognises, neither he nor the Commission has any powers over what decisions are taken at EC level, when the EC should enlarge, much less what the 12 should decide in the constitutional review foreseen by Maastricht for 1996.

"It is the Council not Commission which decides on all Community matters," he underlines. But his remarks show an uncompromising federalist view of EC development, and of the need for more "deepening" before the Community "widens".

They also echo last week's warning from Mr Jacques Delors, the Commission president, that Denmark will be left on Europe's sidelines if it fails to ratify Maastricht in a fresh referendum.

In the Maastricht treaty, "the goal of a federal European state is spelled out for the first time", Mr Bangemann says. "Although Maastricht did not see the creation of a federal European state, the breakthrough must come with the next step," he adds, referring to the 1996 review.

Britain's biggest companies back treaty

By Michael Cassell, Business Correspondent

BRITAIN'S biggest companies yesterday gave near-unanimous backing to the UK government's pro-Maastricht stance and warned that the country faced continuing recession and deepening isolation if its political commitment to Europe faltered.

More than 50 of the country's biggest corporations contacted by the Financial Times on the eve of the critical House of Commons debate said a No vote risked leaving Britain as a "semi-detached" member of the Community, powerless to influence events.

There is evident impatience at the uncertainty surrounding Britain's future role in Europe and a desire to see an end to a period of mounting confusion.

Many companies voice fears that Britain's ability to exploit fully the single market will be seriously undermined if it were not to ratify the treaty and that inward investment into Britain would be badly hit if the country appeared to be increasingly isolated within the EC.

Though many companies want the government to seek clarification of elements of the treaty, they believe its ratification remains an inevitable next step in the political and economic development of Europe.

Most chief executives say that, whatever the doubts over Maastricht, tonight's vote will send an important message to Britain's EC partners and that it must be a positive one.

Britain's Federation of Small Businesses said it supported a referendum on Maastricht, claiming the treaty offered "threats and promises", however it feared the threats would hit smaller companies.

A more widespread view was echoed by Mr Barry Stephens, chairman and chief executive of Siebe, the engineering group, who said a No vote would seriously damage Britain's trading and manufacturing prospects.



Neil Tillotson, 93 (right), of Dixville Notch, New Hampshire, waits to cast the first vote of the election

Heavy turnout reported in US presidential poll

By Jurek Martin in Washington

A HEAVIER than usual turnout was reported from across the US yesterday as an estimated 100m Americans cast the votes that will determine the country's 43rd president.

The weather was mild on the east coast after much recent rain and generally good in the west. A belt of raw, snowy conditions afflicted the midwest and the plains states, but all early signs were of longer-than-usual queues at polling stations.

Voter registration this year is only up about 1 per cent nationally on 1988, though in some states, especially those where Mr Ross Perot, the independent candidate, is particularly popular, increases of 6 to 8 per cent have been recorded.

Most projections are that total turnout will exceed the 50.1 per cent of registered voters recorded in 1988. Usually a higher participation favours the Democratic candidate over the Republican, but this year it may suggest that Mr Perot is doing better than the pre-election polls have indicated.

Conforming to tradition, the first returns were announced from the hamlet of Dixville

Notch, in northern New Hampshire, where the polls opened at midnight.

President George Bush got 15 votes, Mr Perot eight and Governor Bill Clinton, the Democrat, only two, behind Mr André Marrou of the Libertarian Party, who got five. In 1988, Mr Bush won 34 Dixville Notch votes to only three for Mr Michael Dukakis.

The president voted early in Houston after a morning jog, and Mr Perot cast his vote in Dallas. Mr Clinton was still campaigning yesterday, finishing up with a dawn speech at Denver airport before flying back home to vote in Little Rock, the capital of Arkansas.

At his final hometown rally, Mr Bush was more reflective than he had been earlier in the day in the course of his unrelenting assaults

on Mr Clinton's character and the bias of the media.

While still predicting victory, he reminisced about the Gulf War ("they can't take that away from us") and spoke of the importance of everybody exercising the franchise.

Mr Clinton's confidence remained undiminished as he completed his 27-hour campaign swing. "Tonight," he said in Denver, "we will celebrate a new future for the greatest country in the history of the human race."

Mr Perot's last rally in Dallas was boisterous and enthusiastic, though smaller than anticipated. Mr Perot danced on stage with members of his family to the tune of his new theme song, the old Patsy Cline country hit, "Crazy For You".

Also at stake yesterday were 35 seats in the US senate, all 435 seats in the House of Representatives, a list of governors, state assemblies and countless state-wide and local ballot initiatives.

In addition to choosing among candidates for office, Americans were deciding matters of life, death and taxes with "yes" or "no" votes on a host of ballot propositions.

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STOCK MARKET INDICES			
FTSE 100	2,785.8	(+17.8)	
Yield	4.46		
FTSE Europe 100	1,836.76	(+5.94)	
FTSE Asia Share	1,277.83	(+0.78)	
Nikkei	15,450		
New York: DOW Jones	2,588.86	(-11.35)	
S&P Composite	428.71	(-2.04)	
US LUNCHTIME RATES			
Federal Funds	3.75		
3-mo Trans Bill	5.875		
Long Bond	8.5		
Yield	7.8375		
LONDON MONEY			
3-mo interbank	7.75	(7.5)	
Libor 6m	10.00	(10.00)	
NORTH SEA OIL (AUGUST)			
Brent 15-day (Dec)	\$18.575	(19.425)	
GOLD			
New York: COMEX	337.5	(338.5)	
London	338.7	(339.75)	
Tokyo close	Y 644		

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GOING NOWHERE. A boy plays in the wreck of a car destroyed in a Sarajevo mortar attack.

Panic survives no-confidence vote

By Laura Silber and Frances Williams in Geneva

YUGOSLAVIA'S prime minister, Mr Milan Panic, yesterday narrowly survived a no-confidence vote in the upper house of the federal parliament.

The attempt by followers of President Slobodan Milosevic of Serbia to oust Mr Panic failed after the vote of 18 to 17 in the 42-member house, which is divided between deputies from Serbia and Montenegro.

Montenegro, the other member of the reconstituted Yugoslav federation, has supported Mr Panic and Mr Dobrica Cosic, the president of Yugoslavia.

Since nominating Mr Panic as prime minister in June, Mr Milosevic has orchestrated a campaign to oust him. Mr Panic and Mr Cosic have pledged to democratise Serbia and stop the war in Bosnia.

They have also called on the Serbian president to resign.

Mr Panic lost a no-confidence motion in the lower house of parliament on Monday. The lower house is dominated by Serbia's ruling Socialists and their ultra-nationalist allies, who accused the federal leaders of treachery and serving foreign interests.

Mr Panic survived another no-confidence vote in September.

Meanwhile, the future of the Bosnian peace negotiations in Geneva remained uncertain following Monday's decision by the "parliament" of the self-declared Serbian Republic of Bosnia to withdraw from the talks unless the republic was formally recognised by the international mediators.

proposals made by the international mediators for a decentralised state with 7-10 autonomous regions were unacceptable as "the sole basis" of negotiation.

Mr Nikola Koljivic, head of the Bosnian Serb delegation in Geneva, yesterday handed Mr Vance a copy of the decision.

and Mr Vance was due to see the Bosnian Serb leader, Mr Radovan Karadzic, last night. Elsewhere, Croatia yesterday refused to grant sanctuary to thousands of refugees fleeing Jajce, a town in central Bosnia seized by Serb forces on Friday. Croatia is already sheltering over 600,000 refugees.

Mixed reception for compromise over animal trials

EC tightens cosmetic test rules

By Andrew Hill in Brussels

COSMETICS manufacturers in the European Community will be banned from testing their products on animals from January 1, 1993, ministers agreed yesterday - but only if alternative testing methods have been developed.

The accord was welcomed by the industry as a sensible compromise, but immediately attacked by European animal rights campaigners for not going far enough.

Mr Chris Fisher of the British Union for the Abolition of Vivisection said: "The council's decision is a cruel deception: it looks like a ban, but it is not." The European parliament added proposals for a total ban to a more general directive on the free movement of cosmetics in June.

Before yesterday's meeting of consumer affairs ministers, only Denmark and Germany supported the amendment. Other countries seemed worried that a ban might disadvantage companies competing against non-EC manufacturers not subject to a ban, or exporting to countries which insist on animal testing.

But ministers yesterday rallied round the compromise proposed by Britain, which holds

the EC presidency. Under this, the Commission would take the advice of a technical committee and could propose an extension of the deadline by at least two years if acceptable alternative testing methods had not been developed before January 1, 1997.

The directive is quite narrowly drawn. It applies only to cosmetics, not to pharmaceuticals in general, and it would

not restrict imports from non-EC countries of products tested on animals. But Mr Karel Van Miert, consumer affairs commissioner, hailed the compromise as the first step towards a wider ban on animal testing, which he hoped would be taken up beyond the Community.

"Cosmetics is only a tiny fraction [of the pharmaceuticals market], but I think this

will have spillover effect elsewhere," he said yesterday.

Mr Robert Vanhove, secretary general of Colipa, the European cosmetics industry federation, said he was sure that the industry would have developed alternatives to animal testing for eye and skin irritation by the 1998 deadline. Alternatives to less important tests could take 10 or 20 years to develop, he added.

Brussels probes BA's Tat deal

BRITISH AIRWAYS' plan to buy just under 50 per cent of the French regional airline Transport Aérien Transrégional (Tat) is being investigated by the European Commission, write Andrew Hill in Brussels and Daniel Green in London.

Brussels' competition authorities have decided that the deal, part of the British carrier's strategy to create a global airline, falls under its merger control rules. BA called the decision "routine"; it had notified the Commission's merger task force on October 23 and had been expecting the announcement.

British Airways, which will spend £17.25m on the 49.9 per cent stake in Tat, still expects the deal to be completed by January. It will also acquire an option to buy the rest of the airline by April 1, 1997.

However, if the Commission decides after a month that it has "serious doubts" about the effects of the deal on competition in the

Community it will launch a four-month in-depth inquiry. If it is still dissatisfied at the end of that period, it could block the deal or ask for it to be amended.

A Commission decision to clear the BA/Tat deal would almost certainly irritate Air France, the state-owned French airline. Brussels last year forced Air France to sell its 35 per cent stake in Tat when it took over UTA, the French long-haul carrier, and Air Inter, the French domestic airline.

Five days ago, the Commission decided that BA's proposed rescue of Dan-Air, the troubled Gatwick-based UK carrier, did not meet the criteria for investigation by Brussels, saying Dan-Air's EC turnover was too small. The British government has also decided not to refer the Dan-Air deal to the Monopolies and Mergers Commission. However, four rival British carriers have lodged a complaint with Brussels under separate EC treaty rules.

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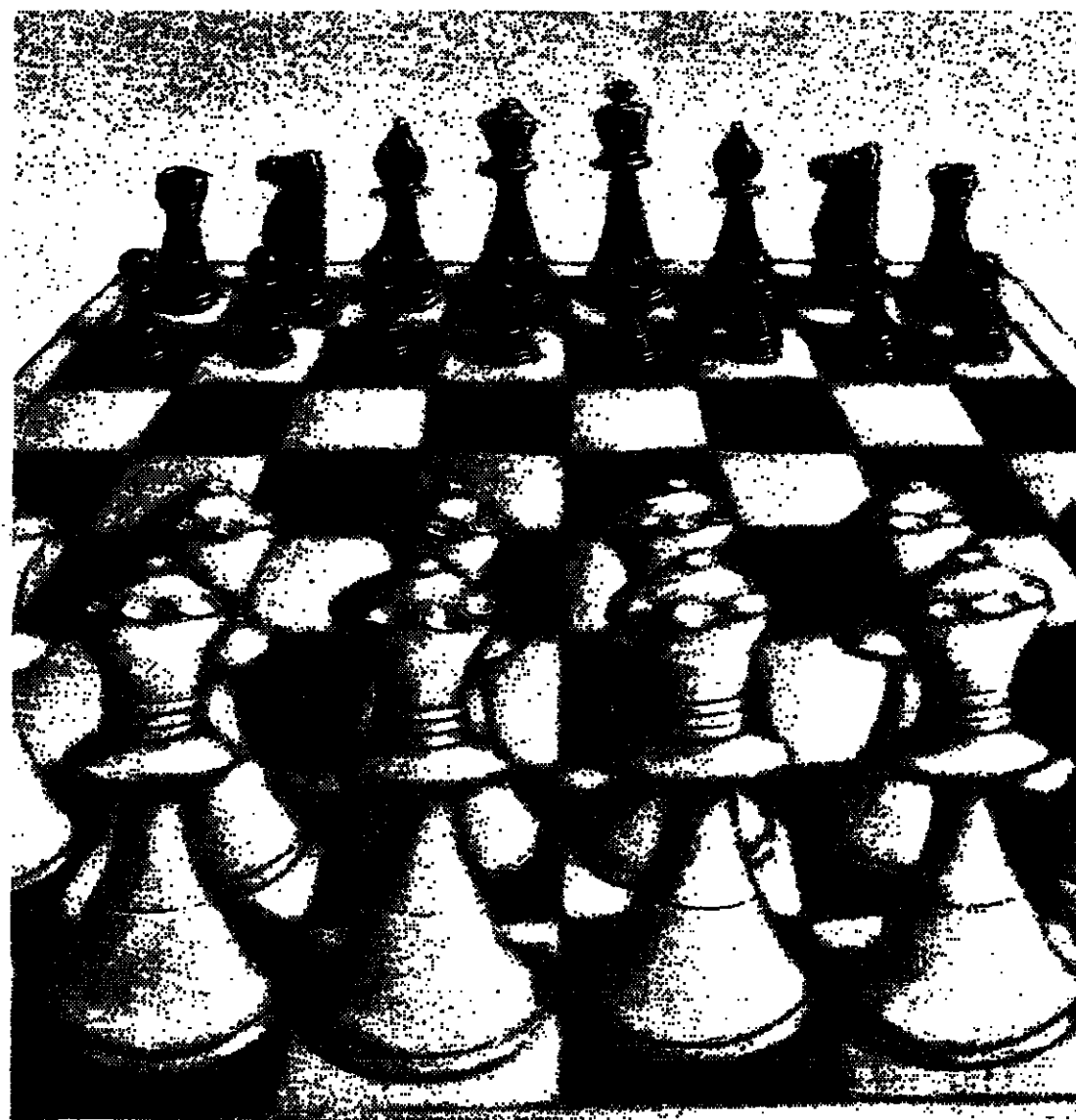
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Owen claims wide acceptance of Bosnia proposals

By Robert Mauthner, Diplomatic Editor

THE constitutional proposals for Bosnia and Herzegovina made by Mr Cyrus Vance and Lord Owen, the United Nations and European Community peace negotiators, have had a far wider acceptance than has so far been recognised, the latter said in London yesterday.

Lord Owen, who was addressing the annual dinner of Britain's Diplomatic Association, was speaking only a day after some of Bosnia's Serbian leaders announced they were pulling out of the international peace talks in Geneva.

They were reported to be withdrawing from the talks until their "basic demand" for an ethnic division of Bosnia was met. Lord Owen, however, claimed that no-one had openly challenged the "extremely strong human rights safeguards" or the rigorous procedures whereby ethnic cleansing could be reversed, "over the years", by individuals wishing to return to their homes in Bosnia-Herzegovina. "On the fundamental point of the need for more than three provinces, not just a three-way split between Moslem, Serb and Croat, it seems to have passed unnoticed that we have won the support of the key Moslem and Croat decision-makers," Lord Owen said. Under the Vance-Owen proposals, Bosnia would be divided into 7-10 units along economic, rather than ethnic lines.

The Croats, for instance, believed that there was a natural case for a separate province encompassing Bosanski Brod, in

Posavina, which was not linked geographically to a province in West Herzegovina, Lord Owen said. In this context, he stressed that there was no evidence to support the claim that the Bosnian Serbs had forced their way into Bosanski Brod as a result of a secret deal with the Croats.

Lord Owen said that, given the views of some of the Bosnian Serb leaders, it had come as no surprise that they had rejected the peace negotiators' proposals "at this stage." No more naked challenge to the authority of the international community could be found than the statement by the head of the Bosnian Serb army, General Ratko Mladic, who had said that his army and the Serb republic was a fact. "Whether the world wants to recognise it or not is their affair," the general had added.

But that was a challenge which the world would not shrink, Lord Owen said. The principles adopted by last summer's London peace conference on Yugoslavia were not just "Boy Scout" maxims; they were based on reality. "It is not just morally wrong to tolerate ethnic cleansing and territorial aggrandisement, but it is against our vital interests. To abandon those principles would weaken us all when dealing with the problems created by the collapse of the Soviet Union." Moreover, the Islamic world would hold a justified grievance against the world, and particularly Europe, for centuries ahead, if it acquiesced in the Moslems being driven out of their homes and living as a beleaguered people forever.

End of drink ration cheers the Faroese

THE inhabitants of the rugged Faroe Islands in the North Atlantic are getting their first taste of unrationed, over-the-counter alcohol after the lifting of a draconian 85-year-old drinks law, Reuter reports from Copenhagen.

Until this week, each Faroese had to order liquor and wine from Denmark, subject to individual rationing, and delivery would take place between eight and 10 days later. Now, with the opening on Monday of the islands' first liquor, wine and beer store, the waiting is over.

About 1,000 of the islands' 47,000 inhabitants lined up for the inauguration of the monopoly store in the capital, Torshavn, to experience for

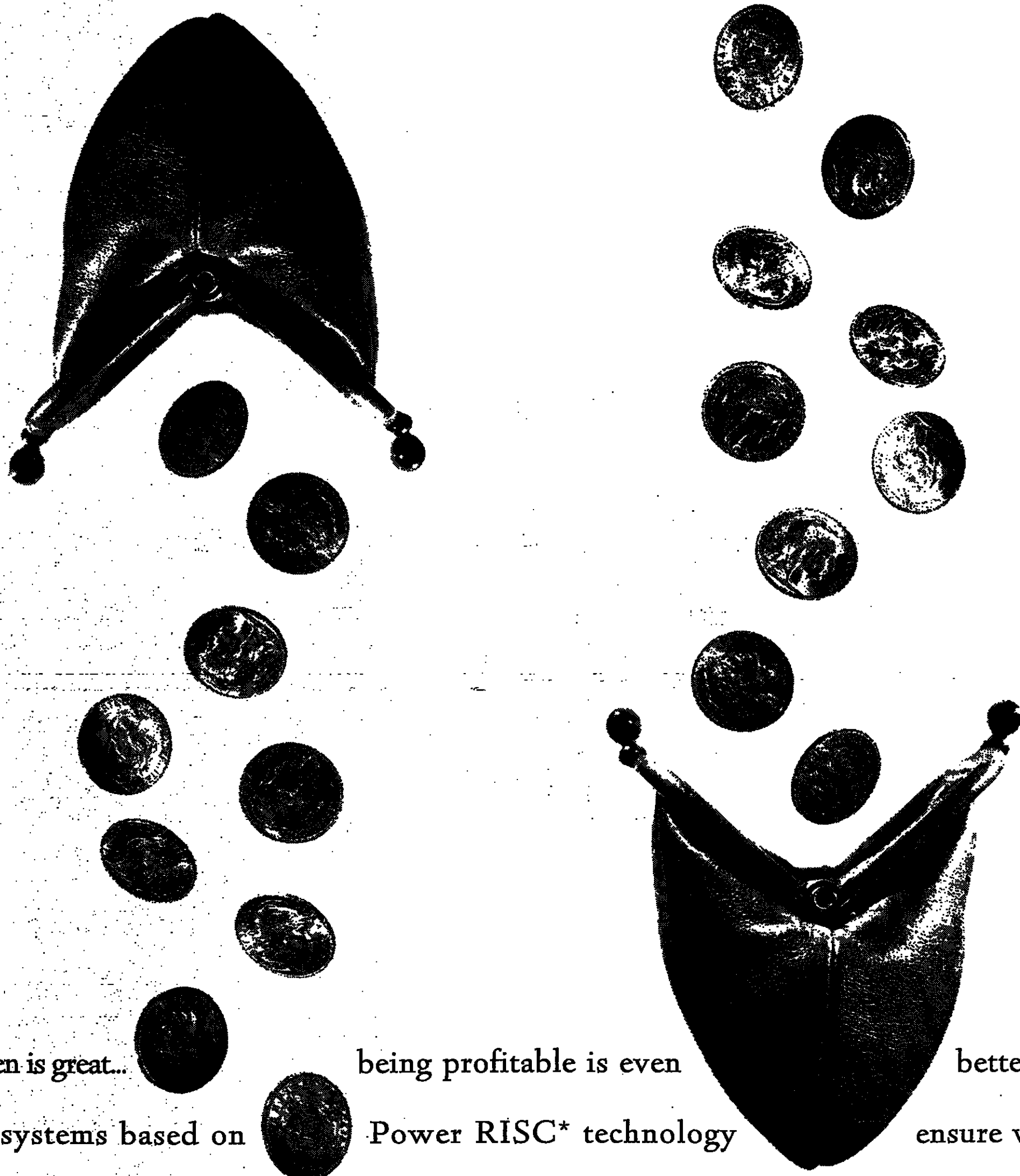
the first time what it is like to buy alcoholic drinks over the counter.

Before the law was lifted, the ration was 13 bottles of liquor from Denmark every three months. Beer could be bought from local breweries, but had to be ordered a day in advance.

Politicians on the Faroes, a self-governing Danish province, believe the change will lead to a more moderate and relaxed drinking culture.

The original law was introduced to combat a serious drinks problem on the islands, but people effectively circumvented it by ordering their maximum rations to be on the safe side.

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NEWS: THE AMERICAS

Markets' mood positive and economic figures better

Wall Street calm as US goes to polls



US financial markets seemed almost unnaturally calm in the approach to yesterday's presidential election. For the markets, President

George Bush is a known quantity, while they have also had plenty of time to get used to the idea of a Bill Clinton presidency, write Michael Prowse in Washington and Patrick Harveron in New York.

The generally positive mood on Wall Street also reflects the slightly better tone of some recent economic reports. The 2.7 per cent economic growth reported for the third quarter overstated the economy's momentum and appeared to come too late to give President Bush's campaign much of a lift, but it was nevertheless better than expected.

The news this week that the Purchasing Managers Index moved back above 50 per cent last month, thus signalling a mild expansion of manufacturing industry, was also seen as a good omen for the incoming administration.

But economic clouds continued to mar hopes of better times. Figures yesterday showed a 0.3 per cent decline in the official index of leading economic indicators in September, a blow after a decline of similar magnitude in August.

Officials said the index of coincident indicators, designed to measure the current state of the economy, was even weaker and would have fallen 0.8 per cent in September but for distortions caused by Hurricane Andrew.

The behaviour of financial markets in the final weeks of the election campaign has been entirely logical. As polling day neared, share prices and the dollar either held their ground or strengthened, while bond prices weakened steadily.

The traditionally pro-Republican stock markets have approached the possibility of a President Clinton with surprising equanimity. When the Democratic challenger retained his big lead in the polls after

the Republican convention in August investors began scrambling to prepare for a Clinton victory. Stocks expected to benefit from higher government spending and stronger growth rose, while stocks likely to suffer from increased government regulation or higher taxes fell. The overall result was mixed and by mid-autumn a Democratic triumph was fully priced into equities.

The Republicans' late surge in the polls at the end of October had little impact on equities. If anything, prices weakened as the market grew more jittery.

The dollar, meanwhile, drew strength from the polls showing a likely Clinton win, because under the Democrats economic growth would be expected to gather pace and interest rates would be expected to rise.

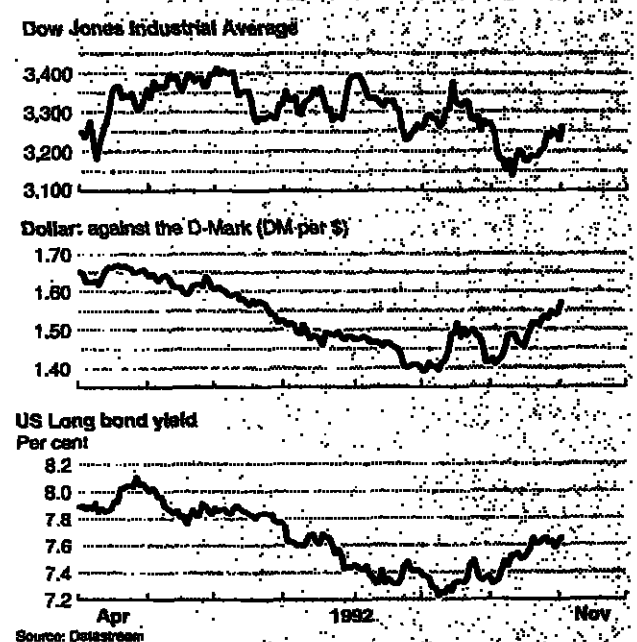
The prospect of higher interest rates under a Clinton presidency, however, partly explains why the bond markets have performed so poorly during the final weeks of the campaign. Many investors in government securities fear that a Democrat-controlled White House and Congress would mean three things: rising interest rates, rising inflation, and a widening budget deficit.

The fears are predicated on an aggressive fiscal stimulus during the first few months of a Clinton presidency.

However, some close advisers to Mr Clinton, such as Mr Robert Shapiro, have repeatedly denied that any fiscal stimulus is planned. "The mood is one of hope," said Mr Stephen Roach, a senior economist at Morgan Stanley, the Wall Street investment bank, on the assumption yesterday that Mr Clinton would win. "Markets are willing to give a new president a chance."

Mr David Reiser, chief economist at Nomura Securities, was more cautious. "The stock market has yet to come to grips with the rise in long bond yields in recent weeks." Unless the fiscal roots of bond markets fears were addressed by a new Clinton administration, higher long-term rates would impair the recovery next year, he warned.

US markets during the campaign



FOR HIS EAR ONLY: Mrs Hillary Clinton has an intimate word for husband Bill in the darkness before dawn, on the campaign trail in Texas



STANDING BY HER MAN: Mrs Margot Perot smiles beside husband Ross. TENDER IS THE MIGHTY: George Bush plants a kiss on wife Barbara

It's just too much for Little Rock

EXCITED crowds of Arkansans and tourists yesterday descended on a 16-block area cordoned off in downtown Little Rock for a giant America's Watch Party and to celebrate what could be an historic shift in US politics.

Governor Bill Clinton's final punishing 28-hour plunge through eight states, in his drive to win the US presidency, was matched in the Clinton-Gore headquarters building in the Arkansas state capital. Red-eyed and weary, the 400 senior officials supervised a massive turn-out-the-vote effort.

Some 12m telephone calls were made to voters in the last hours of the campaign: 250,000 workers were organised to bring voters to the polls.

Ms Betsy Wright, deputy chair of the Clinton campaign, said plans were under way to extend this effort to give US voters a role in the transition to a new government through "a modern communications mechanism" to be used if Mr Clinton proved victorious.

Clinton staff have talked of establishing a special toll-free telephone number to allow citizens to express "those ideas that have been stifled across the country".

Ms Wright expressed intense bitterness about President George Bush's criticism of Arkansas during the campaign.

Nancy Dunne visits the capital of Arkansas, where some are busier in the Clinton cause than others

and said it was unprecedented for a sitting president to attack a state. The president had implied that Mr Clinton was "the failed governor of a small state".

"There are 17 states smaller than us. It is the kind of divisiveness we have seen out of this White House. Our star on the American flag is the same size and the same brilliance as of 50 stars."

Ms Wright, who served as the governor's chief-of-staff in Arkansas, said she had found "personally difficult" the criticism of his character: "I know him better than most people. To hear someone attack his character - when he is just fundamentally an honest, good, and caring human being - was very painful."

Many Little Rock people seemed stunned by the visiting horde. Many expressed indifference to Mr Clinton and talked about his tax increases. Some said they hoped he would win so that Arkansas could get a new governor.

"Bill Clinton is much more unpopular in Little Rock than he is outside the city," said Mr Marc Ginsberg, the governor's deputy press secretary. "Little Rock is an island unto itself. There is an historical relationship of hostility between the city and the rest of the state. It is sort of like the Paris to the rest of France."

Back in the Paris of Arkansas, outside the centre set up for the media, crowds of tourists listened to blaring jazz and rock music. Visiting dignitaries and wealthy contributors were checking in to the luxury downtown hotels. Shops did a brisk business in campaign buttons, balloons and T-shirts.

Turnout reigned outside the nearby Clinton-Gore headquarters. Several Hawaiians were photographed holding up a banner proclaiming their state's support for Mr Clinton.

However, at Hot Springs, 55 miles from Little Rock, there were few indications of popular support for the governor. One sign proudly proclaimed Hot Springs "Bill Clinton's Home Town." Another sign along the highway exhorted: "Christians vote God's heart, not your pocket book."

An open-top convertible with a Bush-Quayle sign, drove by honking.

Mr Rodolfo Macias Cabrera, self-proclaimed "provisional president of Mexico", was in his 28th day of a hunger strike in front of the headquarters. He said the Mexican constitution allowed the formation of a provisional government when an election had been by fraud. Opponents of President Carlos Salinas set up the self-styled government after the 1988 elections.

Mr Macias was urging Mr Clinton to oppose a North American Free Trade Agreement with what he calls Mexico's illegal government. Inside the headquarters, tourists were reading letters from small children to Mr Clinton. One demanded to know if he would raise taxes. A seven-year-old girl said he had won her backing, not because her parents supported him, but because "I think you will make a better tomorrow and I think you would be for women's rights."

CAMPAIGN SOUNDBITES

My dog Millie knows more about foreign policy than these two bozos

George Bush

Bozo makes people laugh and Bush makes people cry. America's going to be laughing on Tuesday

Bill Clinton

It must have been Millie that taught him to roll over and play dead.

Al Gore

Bill Clinton has a credibility problem

Dan Quayle

Annoy the media - re-elect Bush

Bumper sticker

I'd like to thank you all for this tremendous recession

George Bush

It's good to see a Democrat blowing something other than the election

Arsenio Hall after Clinton had played saxophone on his show

When Bill Clinton is playing that saxophone, middle-class Americans will be singing the blues

George Bush

I'm not sitting here like some little woman standing by her man like Tammy Wynette

Hillary Clinton on a TV show about their marriage

I tried, but I couldn't inhale

Bill Clinton on his drug experiences while a student at Oxford

I have concluded that we cannot win in November

Ross Perot withdrawing in July

We'll landslide this thing if the people vote their conscience

Ross Perot at final rally on Monday night

But how has the recession affected you personally?

Audience member to George Bush during second debate

Who am I? Why am I here?

James Stockdale, Perot's running mate

I am sick and tired of you questioning my integrity.

Perot on the press

I don't like those paid talking heads who write me off.

Bush on the press

LANCASHIRE

The FT proposes to publish this survey on November 19 1992. It will be of particular interest to the 92% of professional investors in Europe who regularly read the FT. If you want to reach this important audience and receive a copy of the editorial synopsis and advertising rates call

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Queen Street
Manchester M2 5LF

Data source: The Professional Investment Community Worldwide

FT SURVEYS

An island pulled up by a Bootstrap

Incentives which enriched Puerto Rico remain vital, reports Canute James

VISITORS recently to the offices of Fomento, Puerto Rico's economic development agency, were greeted by an exhibition of photographs depicting aspects of the island's economy. Some photos, which record scenes in factories and fields in the early 1940s, were mounted beside others showing more recent economic undertakings.

Even the most cursory look at the exhibition forcefully made the point. Fifty years ago this year, Puerto Rico, impoverished and backward - the poorhouse of the Caribbean, says official literature - took a giant step forward. The result today is one of the more industrialised economies in the Americas. The spark was Operation Bootstrap, a web of incentives which have lured big companies to establish plants on the island.

"Puerto Rico today without Bootstrap would be terrible," said Mr Alfredo Salazar, administrator of Fomento. "We would still be struggling with agriculture alone, and would still be facing the hopelessness of the 1940s. This would have been an empty island as most of the population would have left."

The change has been, by any standard, dramatic and significant. Per capita income has risen from \$120 in 1942 to \$6,500, while GNP has grown from \$287m to \$17bn. Agriculture, which contributed 23 per cent of GDP in 1942, now

accounts for 1 per cent and has been replaced as the backbone of the economy by manufacturing, with the number of industrial plants growing from about 50 in 1942 to 2,000 today, employing 155,000 Puerto Ricans, against 15,000 50 years ago.

The volume of trade has grown from \$2bn to \$35bn. Puerto Ricans are now expected to live 74 years, 30 years longer than in the 1940s. Companies drawn to Puerto Rico gained not only from a tax holiday, but from the fact that the island, as a US possession, offered political stability, low wages and relative proximity to the mainland market.

But Puerto Rico found itself losing business to competitors in south-east Asia and in the mid-1970s obtained further advantages under Section 936 of the US Revenue Code which encouraged mainland companies with subsidiaries on the island to deposit their profits in local banks. These deposits, of about \$15bn, have become a pillar of the island's financial stability.

Puerto Rico's Caribbean neighbours, overtaken by economic and social problems, sometimes look with more than passing envy at the results of Operation

Bootstrap. It is clear, however, that the Puerto Rican experiment and its seeming success cannot be emulated.

Puerto Ricans are US citizens but cannot vote for a president. The island's representation in Washington is limited to a commissioner who has no vote to influence legislation.

"There are lessons in Puerto Rico for other Caribbean and developing countries, although there are few parallels," concludes Mr Pat Thompson, executive director of the Caribbean Association of Industry and Commerce, an umbrella for the region's private sector.

Puerto Rico's position as a part of the US is similar to that of French overseas departments such as Martinique and Guadeloupe, and allows for assistance which others cannot get. "The lessons for us from Puerto Rico are in the organisation and management of finance, and in negotiations with major companies and industrial sectors for joint venture industrial projects," says Mr Thompson.

It is clear, however, that what Puerto Rico is today is more than the work of Operation Bootstrap and the incentives

contained in special arrangements such as Section 936. Despite its giant leap over the past 50 years, the island is still the least affluent part of the US. The average income of Puerto Ricans is a third of that of mainland residents.

The economy is underpinned by federal transfers of about \$4bn per year under programmes such as those for medical aid and food stamps. The island also receives hundreds of millions of dollars from rebates of federal excise taxes and duties collected on exports such as rum.

Citizenship of the US has also facilitated easy migration to the mainland. Mr Salazar says that while 3.6m Puerto Ricans live on the island, another 2.5m are on the mainland. This is an obvious safety valve against social pressures, without which unemployment in Puerto Rico would be worse than the current 17 per cent.

The fruits of Operation Bootstrap have helped Puerto Ricans answer some of the questions about their political future. They know what they do not want. Advocates of political independence have always been placed a distant third when votes are taken on political status. Economic and political problems in some neighbouring islands appear a powerful argument against casting adrift from the US. The argument is mainly between remaining the same or becoming a state of the union.

Deficit and politics sway Cavallo's fiscal resolve

THE prospect of Argentina's first trade deficit since 1981, the threat of recession and the political priorities of President Carlos Menem have forced Mr Domingo Cavallo, the Economy Minister, to backtrack on his promise to apply the full discipline of the market on Argentina's unruly economy.

Last week he agreed to industry's demands for additional support for exports and increased protection from imports, notably from Brazil. His measures also aim to avoid recession in 1993, an election year. The measures, which amount to an indirect 5-10 per cent devaluation of the peso, became inevitable as Argentina's currency became increasingly overvalued.

Mr Cavallo has eliminated a fuel tax and broadened tax rebates for exporters, a boost worth about \$1.1bn a year. He reduced the highest import tariff from 35 per cent to 20 per cent and maintained a zero tariff for some capital goods while raising tariffs for many intermediate industrial products. He "temporarily" raised to 10 per cent a previous 3 per cent statistics tax on nearly all imports.

This has the virtue of offsetting preferential tariffs on Brazilian imports. Taxes are not affected by the 1991 treaty creating the Mercosur common

market between Argentina, Brazil, Paraguay and Uruguay, which is gradually lowering tariffs.

Industry's cries for help to stem a mounting trade deficit with Brazil - which is expected to exceed \$1bn this year - were the catalyst for last week's package.

Mr Manuel Herrera, secretary of the Argentine Industrial Union which represents manufacturers, says: "Twenty per cent of Brazil's output is

and \$2bn, against 1991's \$3.87bn surplus. This is because imports are up 60 per cent over last year while exports remain steady at about \$12.0bn.

Exports, which represent only 8 per cent of GDP, clearly need encouragement and industrial exports need special attention. The share of manufacturers in Argentina's exports has declined every year since Mr Menem took office in 1989. Farm goods and

ing recession inevitable.

But Mr Menem's political agenda allows no room for a bruising recession. He wants his Peronist party to sweep the 1993 congressional mid-term elections and forge ahead with his controversial bid to amend the constitution to allow him to stand for re-election in 1995.

Initially, economic reform boosted the government's popularity by driving inflation down to between 1 and 1.5 per cent a month and unleashing a consumer boom. But the spending cuts, unemployment and brutal shakeouts now required are not popular anywhere.

Pessimists will say last week's decisions are depressingly familiar. Argentina's governments have a tradition of embarking on impressive reform, only to retreat when the going gets tough.

Mr Cavallo says he is only fine-tuning the economy and has reaffirmed his commitment to fiscal rectitude and liberalisation. He says his new package, plus a previous round of deregulation and cost-cutting, will boost productivity by between 16 and 21 per cent.

However, the changes ease the pressure on industry to perform. An American trade analyst says: "Companies must instill a new kind of management. They have to become stingy penny-pinchers and

John Barham examines supportive measures for Argentine industry

equivalent to all our output. They are selling products at artificial prices here that they cannot sell in other markets."

Alarm over Brazil is now acute. Officials say that economic chaos there makes the December 1994 deadline for full integration increasingly improbable.

Many Argentines want to scrap Mercosur and opt instead for rapid association with the North American Free Trade Agreement. But US officials warn Argentina has no chance of joining Nafta soon and urge perseverance with Mercosur.

Mr Cavallo is confident of eliminating Argentina's trade gap in 1993. This year's deficit is estimated at between \$1bn

raw materials now account for two-thirds of exports.

However, Mr Cavallo has previously said that a trade deficit was no reason for concern. After the peso became fully convertible and was pegged to the dollar in April 1991, the theory was that prices and productivity would converge at world levels. Divergences would be automatically corrected by recession.

Mr Cavallo has made great headway in trade liberalisation, privatisation and deregulation, but he has not tamed inflation. Retail prices have risen by over 40 per cent since April 1991, relentlessly increasing pressure on the exchange rate and mak-



Domingo Cavallo: Setting a precedent for special pleading

fight harder for markets. But they've learnt - and they're being proved right again - that it's easier to lobby for rule changes and devaluations."

By creating a precedent for special pleading, Mr Cavallo will come under more pressure to soften his policies. Further concessions would worsen inflation and diminish his credibility. Independent economists already predict higher inflation will wipe out the package's effects by early next year.

Argentina is still ridden with inflation, despite the pace of reform, as it originates from a rigid labour market and retail sector.

Hiring and firing is difficult and expensive, wage costs are high and productivity low. Mr Cavallo's repeated attempts to tackle the labour market have failed because Mr Menem cannot risk losing the unions' backing.

As a result, an average industrial worker costs companies \$1,000 a month in wages,

taxes, social security contributions and other costs. Heavy deductions cut net wages to only \$600 a month, so unions are constantly agitating for pay increases. They have now called a general strike for November 9.

Consumer prices are high because retailers, facing little competition, raise prices with impunity. Wages may seem primarily by regional standards, but their purchasing power is probably less than in Chile or even Brazil.

Associate will turn against Collor

By Christina Lamb
in Rio de Janeiro

THE MAN alleged to have fronted the corruption scheme which brought the current suspension from office of Brazil's President Fernando Collor is planning to turn against him today during Latin America's first impeachment trial.

Mr Paulo César Farias, known as PC, seems to be furious over Mr Collor's defence so far, which tries to pin all the blame on him. Today, he will end his long silence over his former boss, hoping to reduce any forthcoming criminal charges against himself.

Mr Augusto Farias, his brother and a congressman, was yesterday reported by the press as having said: "The president is treating my brother as an enemy and not as the dedicated and loyal friend he has always been. PC has no option but to unleash all his fire on Collor."

The hotly awaited hearing may well be crucial in forming a verdict by the Senate, which is trying Mr Collor on corruption charges and will impeach him if it finds him guilty.

The trial started last week. Yesterday, the first prosecution witnesses were called to testify before a packed Senate. They include Mr Luis Motta Veiga, former head of Petrobras, the state oil company, and Mr Claudio Vieira, ex-private secretary to Mr Collor.

Mr Farias has spent the last few days closeted with his lawyers in his mansion in Alagoas, his home state and that of the president, in the distant north-east. One of his lawyers admitted that they had been hoping for Mr Collor's resignation. "Collor's defence is a complicating factor for PC and means it's now every man for himself," he said.

After decoding a computer programme of Mr Farias's, the federal police are considering recommending charges against companies which, they claim, paid million-dollar bribes to win contracts. The list is said to include some well-known multinationals.

Havana, Moscow initial trade accord

CUBA and Russia signed trade and shipping accords yesterday and apparently agreed to keep open an electronic intelligence-gathering station once run by the Soviet armed forces on the communist-ruled island, Reuter reports from Havana.

The Cuban news agency Prensa Latina said the accords, including provision for a possible sugar-for-oil deal, were signed in Moscow by Mr Lionel Soto, Cuban vice-president, and Mr Alexander Shokhin, Russia's deputy prime minister for foreign economic affairs.

The agreements appeared to be the most important reached between Havana and Moscow since the break-up of the Soviet Union, the Caribbean island's main political ally and economic supplier, for three decades.

Prensa Latina quoted Mr Soto as having said the two sides were also seeking a third partner to help complete a nuclear power station until recently being built in Cuba with Soviet aid.

Cuban President Fidel Castro suspended work on the plant on September 5, saying the country could not afford to

accept terms offered by Russia to finish it.

Mr Soto said guarantees were needed to ensure the supply of nuclear fuel to the Cuban plant, according to Prensa Latina.

The agency described the accords as "important for the future development of bilateral relations". It quoted Mr Soto as having said they would help to widen and stabilise ties between the two countries.

Prensa Latina said the bilateral agreements, valid for 1993, covered trade, economic co-operation, shipping and the "maintenance in Cuba of the

ex-Soviet radio-electronic centre".

This was a reference to a military signals intelligence facility at Lourdes and believed to be one of the biggest operated by the Soviet military in the western hemisphere during the cold war.

Cuba and Russia agreed in September to withdraw the last remaining former Soviet combat troops on the island. Russian officials said at the time that the Lourdes installation, now the responsibility of the Russian government, would be the subject of separate talks.

Direct elections for Cuba

CUBA'S ruling Council of State yesterday appointed a commission to supervise national one-party elections, to start on December 20 with polls for municipal assemblies. Reuter reports from Havana.

The new electoral process, approved by Cuba's National Assembly last week, will culminate in early 1993 with direct elections to the assembly, the first held in 30 years of communist rule.

The new electoral legislation introduced direct, secret voting to fill the national and provincial assemblies, replacing an indirect system.

Cuban officials said the reforms were meant to increase participation in national elections while keeping the island's one-party rule.

However, at least one political dissident has said he intends to try to run for a national assembly seat.

An official statement in the Communist party newspaper Granma said the municipal elections on December 20 would elect members for 2½-year terms.

Cuba's more than 150 municipal assemblies are the lowest tier of the island's local government system. They adminis-

ter local facilities ranging from public transport and schools to shops and restaurants.

Municipal assembly delegates are chosen by local voters, aged 16 and over, from among two to eight candidates. To be elected, candidates need more than 50 per cent of the total valid votes.

The 17-member election commission appointed by the Council of State is headed by Mr Carlos Amat Feres, justice minister.

Provincial, municipal and local electoral commissions would also be formed by next Tuesday.

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BOEING

NEWS: WORLD TRADE

Mercosur takes to the highways

Christina Lamb looks at plans for a \$2.5bn network to further economic integration

PLANS for a "South American Super Highway" linking Brazil, Uruguay and Argentina have been put forward to advance the three countries' commitment to economic integration.

The three governments are for the first time calling on the private sector to put up the money and take the risk. It will be the continent's most ambitious highway project in recent years and the first such tripartite co-operation.

The proposed 3,500 km expressway to link the commercial centres of Buenos Aires and São Paulo will cost an estimated \$2.5bn. Its construction is thought critical to the success of Mercosur, the southern cone common market serving over 200m people which becomes fully operational in 1995.

Since the Mercosur treaty was signed in 1990, regional trade has already doubled to \$6.5bn and exporters say an urgent improvement in roads is needed.

Plans based on a study commissioned by the Inter-American Development Bank (IDB) were presented to businessmen, technicians and government representatives last month. The governments of Brazil, Argentina and Uruguay then formed a commission to detail a proposal by next year.

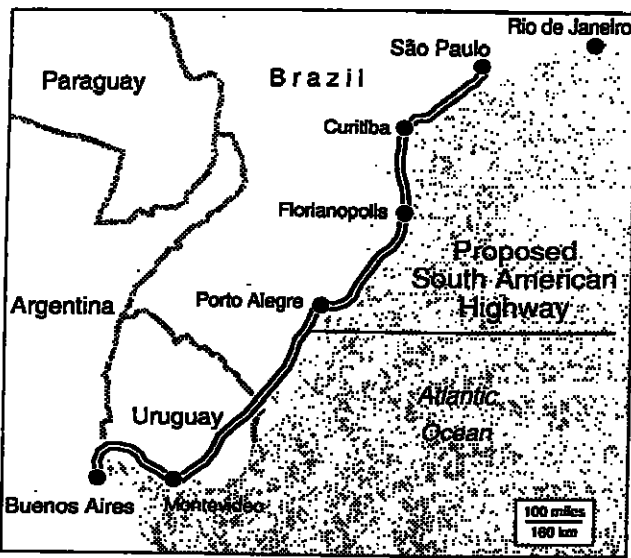
Mr Enrique Iglesias, president of the IDB, says that the bank will provide technical assistance and financial guarantees for the project, the cost of which would be recovered mainly through toll revenues.

This is a revolutionary concept in countries with often wasteful state spending. Mr Iglesias said: "Construction companies are shocked when we tell them now it's your turn to go to the market and raise finance." But Mr Alberto Goldman, the Brazilian Transport minister, says there is no other option: "The state has no more money. Next year for example my budget is only \$500m yet just to recuperate existing roads I would need \$2.5bn."

The planned South American Super Highway is the most important of several projects to improve infrastructure within Mercosur to cater for rapidly increasing regional trade.

The idea stems from well advanced plans to build a 50 km bridge across the La Plata river linking Colonia in Uruguay to Buenos Aires, reducing the journey between the capitals of Argentina and Uruguay by 280 km. Bids for the \$1bn construction will be invited on a build operate and transfer basis.

Based on the construction of the bridge, the IDB initial study by Louis Berger Interna-



tional suggests that the best route for the highway is along the coastline of southern Brazil and Uruguay.

Costs would be kept down by using existing roads, improving their condition and widening them from two to four lanes. Estimated costs vary from \$110,000 per km for a two lane road rehabilitation to \$1m for a new four lane bypass.

Mr Joseph Revin who co-ordinated the study, suggests investment be recuperated through an open toll system.

He estimates the rate of return as 16 per cent in real terms with some sections such as Curitiba - Porto Alegre yielding 37.5 per cent. Viability studies are expected to be finished next year and bidding invited in 1994 for construction to then start in 1995.

There are, however, many uncertainties not least the financing. Mr Humberto Busnello, who runs a Brazilian construction company, says he has doubts about the rate of returns, adding "a lot depends

on the bridge - whether that is part government financed".

Members of the Uruguayan delegation admit it could be difficult to get public approval for a heavy traffic highway along the country's coastline. Brazil still needs to pass legislation to allow private concessions of public services.

Mr Roberto Requiao, governor of Parana state through which the road will pass, says "it is absurd to give the private sector the liberty to fix tolls. It could become a monopoly where the local economy will not be able to afford to use it."

Despite these fears, interested European and Latin American companies have already formed one consortium with financial support from Banque Nationale de Paris.

Mr Olivier de Saint Lager, director of the French company Lyonnaise des Eaux-Dumex said his company had formed a consortium with CBPO, a subsidiary of Odebrecht, one of Brazil's leading construction companies, Intregio, an Italian construction company and Cartelloni, a leading Argentinian firm, to prepare a bid for the highway project.

He says "it is not a Pharaonic dream but a viable project. We would not have invested so much in it if we did not think so".

We will conclude pact, says Gonzalez

FRANCE is not alone in not wanting a hasty world trade deal, Spain's Prime Minister Felipe Gonzalez said yesterday, Reuter reports from Paris. Some EC partners were using the French stand to protect themselves. "I do not believe France is isolated," Mr Gonzalez declared after meeting France's President François Mitterrand. "Other countries are shielding themselves behind the French position."

France, anxious to avoid angering its farmers, in revolt over EC farm policy reforms, has said it does not want an accord in the stalled Gatt talks before the US presidential election. "We will reach an agreement in the Gatt talks, but there are certain conditions I, too, would not accept," Mr Gonzalez added.

France has been blamed for the deadlock, mainly over subsidised farm exports and oilseeds trade, which is delaying a wider deal to liberalise world trade. "It's absurd to blame each other as we do," Mr Gonzalez said. "That is a simplification, and they are almost always dangerous."

Gatt waits as US, EC near oilseeds deal

By George Graham and Laurie Morse in Chicago, and David Dodwell in London

TRADE diplomats from the 105 Gatt signatories meet in Geneva today, on tenterhooks over whether US and EC farm trade negotiators have averted a damaging international trade war.

US-EC talks in Chicago aimed at settling a long-standing row over the EC's oilseed subsidy regime stretched late into a third day yesterday. The row is at the heart of talks on wider farm trade reform leading to a new accord.

By early last night, the talks had still not achieved a breakthrough, but officials said lawyers were seeking a formula to bridge the gap. Mr Edward Madigan, US agriculture secretary, broke off talks with Mr Ray MacSharry, EC agriculture commissioner, in the morning to return home to vote in the US elections. He was due to resume the discussions later.

If the oilseeds row is resolved, negotiators expected a broader agreement on farm subsidies, which has so far blocked the Uruguay Round, to fall into place.

The basis for such an agreement would be presented to the 105-member Gatt Council meeting in Geneva today, where others affected by the oilseeds dispute would decide whether they too saw it as acceptable.

Gatt members would examine whether they are willing to "multilateralise" the wider farm trade agreement reached bilaterally by the US and the EC. Only then could negotiators proceed to other outstanding obstacles to settlement of the Uruguay Round, mainly agreements on textiles and services trade, and cuts in tariffs.

Mr MacSharry said last

night: "There is a deal in the making, all the pieces are there."

A US agriculture department spokesman said yesterday the talks were "alive". The two sides were looking at a "reworked proposal with some interesting ideas." Mr Madigan had sought to press Mr MacSharry for further concessions. The talks almost broke down yesterday over the oilseeds issue. Some officials in Washington and Brussels urged the negotiators to leave oilseeds aside and press ahead with wider farm trade issues, where they were much nearer agreement.

But Mr MacSharry and Mr Madigan concluded they could not realistically announce an armistice over Gatt, only to attack each other days later with sanctions and counter-sanctions over the oilseeds dispute.

If no agreement is reached ahead of today's Gatt Council meeting in Geneva, the US is expected to announce the first tranche of a \$1bn (\$500m) package of retaliatory tariffs against EC food products.

US soyabean producers first filed an official complaint against the Community's oilseed subsidies programme in 1987, when European output stood at about 7.5m tonnes. After twice winning their case before Gatt panels, they see no reason to be happy today with an agreement that locks in a higher output level.

US growers acknowledge that reform of the EC's Common Agricultural Policy (CAP) will result in a cut in the acreage devoted to oilseeds, but want these cuts enshrined in the new Gatt, not just in EC law.

They also fear rising yields could result in bigger crops, even from reduced acreage.

Scania signs joint venture for vehicle assembly in Poland

By Kevin Done, Motor Industry Correspondent

SCANIA, the Swedish truck and bus maker, has signed a joint venture contract for the small volume assembly of vehicles in Poland. It has reached agreement with Kapena, a Polish company engaged in maintenance and repair of heavy buses and special vehicles, to assemble Scania vehicles at Slupsk, near the Baltic coast.

Volvo, Scania's rival Swedish truck and bus maker, has signed an agreement with Jelcz, the Polish commercial vehicle maker, to assemble articulated buses for use in city traffic based on Volvo components. Production of Scania vehicles in Poland is planned to begin next spring with the assembly of kits supplied from its Swedish plants.

Output is set to start at 200 units a year but could be increased according to local demand. Scania said the project also called for gradual integration of Polish-made components. It established an importer/distributor, Eurovar, in Gdansk last year, which is responsible for establishing

after-sales facilities in Poland. The Capena deal is the first move into local assembly in eastern Europe by Scania, one of the world's leading heavy truck makers. Volvo will transfer technical documentation to Jelcz and provide technical aid to allow gradual inclusion of locally-made components.

Initial output by Jelcz, Poland's biggest maker of heavy-duty trucks and buses, will concentrate on articulated buses, with the aim of selling about 100 vehicles in Poland in 1993. The products range may be expanded later. The bus chassis for assembly in Poland will come from Volvo, the body from Steyr Bus, its Austrian subsidiary. The Jelcz pact allows for exports of Jelcz-made buses to parts of the former Soviet Union.

MAN, the German truck maker, has signed a letter of intent with Raba, the Hungarian engineering company, and Mogyi, the trading company, to co-operate in assembly of trucks in Hungary. The aim is for MAN to deliver diesel engines and truck cabs to Raba, chiefly for all-wheel drive vehicles exclusively for the Hungarian market.

NEWS IN BRIEF

Italians win M\$180m air traffic contract

ALenia Commercial Systems, part of the Italian IRI/Finmeccanica Group, has won a M\$180m (\$42m) contract to carry out modernisation work on Malaysia's air traffic control system. Kieran Cooke reports from Kuala Lumpur.

Alenia is to install radar and other support facilities at various airports in both peninsula and east Malaysia. A new radar control centre will also be installed at Kuala Lumpur airport. Work on the project is due to be completed in under 30 months.

The contract is one of several likely to be agreed soon. Malaysia plans an extensive modernisation of support facilities at 21 airports over the next three years.

Plans are also under way to build a new international airport outside Kuala Lumpur.

New Morocco-France links

Morocco and France have overcome a period of strained relations and agreed to give new impetus to their economic and political partnership, France's Prime Minister Pierre Bérégovoy said yesterday, Reuter reports from Rabat.

France would give Morocco full support in its efforts to negotiate a partnership with the European Community, leading eventually to a free trade zone, he added.

At the end of a two-day official visit, he said his talks had laid the groundwork for a real partnership between France and its former north African colony.

"Instead of assisting Morocco's development we will now set up a veritable partnership of which we laid the foundations this morning."

Discussions had advanced on a series of projects in the phosphate industry, energy, electric power and telecommunications.

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The loudest sound you will hear inside the Lexus is yourself thinking.

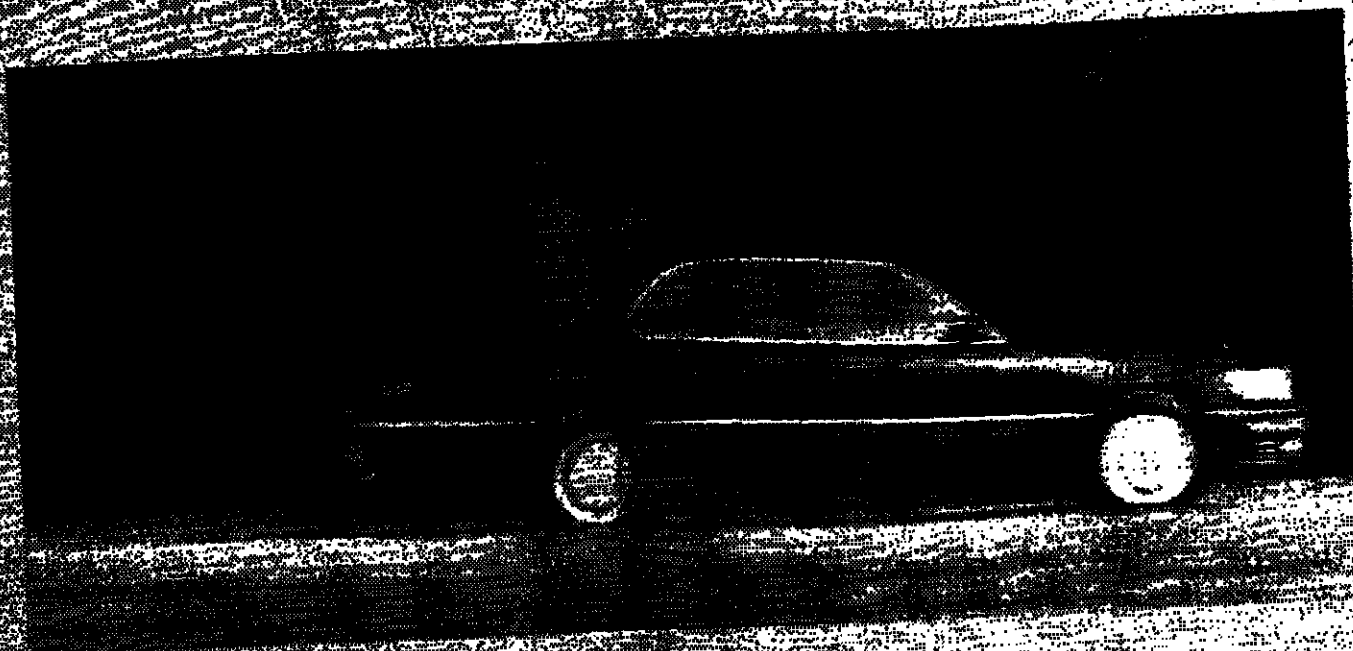


You would expect any luxury car to be silent. But not this one. Well, not if you have your expectations set at the level of a sports car. But the Lexus LS400 is a different kind of car. It's a car that's been designed to be the loudest sound you will hear inside the car is yourself thinking. It's a car that's been designed to be the loudest sound you will hear inside the car is yourself thinking. It's a car that's been designed to be the loudest sound you will hear inside the car is yourself thinking.

The Lexus LS400 is a car that's been designed to be the loudest sound you will hear inside the car is yourself thinking. It's a car that's been designed to be the loudest sound you will hear inside the car is yourself thinking. It's a car that's been designed to be the loudest sound you will hear inside the car is yourself thinking. It's a car that's been designed to be the loudest sound you will hear inside the car is yourself thinking.

flooring does a similar job with road noise. And into hidden structural passages, which are a common conduit for noise, we inject sound absorbing foam. Meanwhile, under the bonnet, there's a 4.0 litre V6 engine that's whisper quiet. It has 4 valves per cylinder and 4 camshafts, and instead of being seated on the usual solid rubber mounts, it has special fluid filled mounts that minimise vibration.

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NEWS: INTERNATIONAL

Australian treasurer under fire over loans

By Kevin Brown in Sydney

AUSTRALIA'S Labor government suffered a serious setback yesterday when the left-wing Democrats joined the conservative Liberal and National parties to force a Senate inquiry into government borrowing practices.

The inquiry will investigate opposition allegations that Mr John Dawkins, the treasurer (finance minister), concealed a \$1.3bn (£570m) increase in borrowing by the former Labor government of the state of Victoria.

The increase breached guidelines set down by the Loans Council, an inter-governmental monitoring body chaired by Mr Dawkins which co-ordinates federal and state borrowing.

The conservatives claim the debt increase was kept secret by Mr Dawkins to assist the re-election prospects of the Victorian Labor government, which was defeated in a landslide earlier this month.

Mr Peter Reith, the conservative treasury spokesman, said the inquiry would provide evidence to force Mr Dawkins to quit. However, Senator John



John Dawkins: may face unwelcome inquiry

Coulter, the Democrats' leader, refused to support calls for the treasurer's resignation "at the moment".

He said the Democrats would try to ensure that the inquiry focused on the structure of the Loans Council, which appeared to be "totally inadequate" for controlling public borrowing. The conservatives claim Mr Dawkins knew in June that Victoria's debt would exceed Loan Council guidelines, but that he knowingly included incorrect figures in the August federal budget.

Mr Dawkins said the federal government has no power to control the borrowing practices of individual states, or to query the figures supplied to the treasury by state governments. He also released papers showing that he was advised not to publicise Victoria's debt problems by the federal treasury, which feared the news would exacerbate nervousness in the financial markets.

The controversy has contributed to recent weakness in the Australian dollar and an increase in bond yields which has added about \$30m to the Victoria's debt servicing costs this year.

Mr Dawkins agreed on Monday night to support an application to the Loans Council by the new Victorian government for a \$1.5bn increase in its borrowing limit to cover existing debts and fresh spending announced last week.

The announcement of a Senate inquiry revived speculation that the government will call a federal election before the end of the year, rather than wait until mid-1993, when the inquiry would have reported.

Burma plans to speed reforms

By Victor Mallet in Rangoon

BURMA'S military government plans to accelerate its economic reforms to attract foreign investment and strengthen the fledgling private sector, according to Brig-Gen David Abel, the finance and planning minister.

He acknowledged, however, that impoverished Burma's economic growth would be curtailed by the refusal of foreign donors to provide aid and by the deadlock in Burma's negotiations with the World Bank and the International Monetary Fund.

The ruling State Law and Order Restoration Council (SLORC) has announced a stream of economic and political reforms in the past few months, including a privatisation programme, the easing of restrictions on tourists and journalists, and the lifting of a night curfew.

But many foreign investors remain sceptical, and western governments are withholding aid because of the SLORC's dismal human rights record and the continued detention of Ms Aung San Suu Kyi, the opposition leader who won the Nobel Peace Prize in 1991.

"Deregulation will be set at a faster pace," Gen Abel told the Financial Times in an interview. He said that the 1988 switch from a centrally planned to a free market economy had already taken root and that the private sector now accounted for half of the country's exports.

"There are a lot of difficulties," he acknowledged, "and we have to minimise these problems. That will take some time, say two or three years, to get it on a much firmer base."

Such difficulties include the reluctance of newly legalised traders to pay border tariffs after decades of smuggling from China and Thailand, and

the government's fear that an outright devaluation of the kyat - Burma's currency which trades on the black market at a 20th of its official value - would fuel inflation and urban unrest.

A handful of foreign companies, including Pepsi-Cola, have recently made small investments in Burma, but other potential investors are deterred by the overvalued currency, government red tape and the fear of further political instability.

Asked about the difficulties foreign companies have in repatriating profits, he said they were entitled to do so under the law if the profits were proven, but complained: "They operate on the black market rates and they want to repatriate at the official rates."

Gen Abel said that Burma, as a mainly agricultural country, was less vulnerable to the worst effects of rapid economic reform than

industrialised eastern Europe. But he made clear that the SLORC wanted a slower pace of structural adjustment than the IMF or the World Bank were prepared to support in the event of funds being made available.

"I think we're at a deadlock," he said. "Structural adjustments on currency would have to be done with great care and caution. They should offer us a safety net or cushion so the adjustments can be done properly."

Gen Abel complained that the US refusal to renew a bilateral textile agreement meant that textile companies in Burma, which include South Korean and Hong Kong joint ventures, were operating below capacity, but he said the withholding of foreign aid would achieve nothing except slower economic growth.

"We went through a world war without exporting even a nail," he said defiantly.

UN peace deal for Cambodia 'should be scrapped'

THE Phnom Penh government called yesterday for a United Nations-brokered disarmament plan in Cambodia to be scrapped so that its soldiers can go back in the field to counter attacks by Khmer Rouge guerrillas, Reuter reports from Phnom Penh.

"We want the UN to declare an official end to Phase Two of the ceasefire," government spokesman Khieu Khanarith said. "We want troops that have been cautioned to go back to their positions."

The second phase of the accord signed last year requires fighters from the four Cambodian factions to enter UN-guarded camps and hand in their guns as a prelude to demobilisation.

The process has stalled because of the Khmer Rouge's refusal to go along with the plan, which they signed with two allied guerrilla armies and the Phnom Penh government in October 1991.

Accusing the Khmer Rouge of a series of recent ceasefire violations, Mr Khieu said: "We cannot canton while the Khmer Rouge has the right to attack us - it creates an imbalance."

The radical faction should be excluded from the process and lose its seat on the provisional Supreme National Council if it continued to spurn the peace treaty, he said.

Mr Khieu said the mandate of the huge peacekeeping operation, the UN Transitional Authority in Cambodia (Untac), should be changed to let its soldiers train the three other Cambodian armies to fight the Khmer Rouge.

He said his government wanted a presidential poll before general elections scheduled for next May.

Such a poll would oust Prince Norodom Sihanouk, the former leader of the guerrilla alliance and now the neutral head of state, as president.

If this was not done his government would reconsider its participation in the general election, he said.

The Khmer Rouge, still led by the same chiefs who subjected Cambodia to a reign of terror in the 1970s that cost over a million lives, have already threatened to boycott the election.

Mr Khieu said his government's army was not planning to launch an offensive but it needed to make counter-attacks against Khmer Rouge advances.

The Khmer Rouge, among other conditions, refuses to join other factions in disarmament until the UN verifies that all Vietnamese troops have left Cambodia.

The Vietnamese invaded in late 1978 to oust the Khmer Rouge and install a sympathetic government. But Hanoi says its last soldiers left in 1989.

Kenya returns to multi-party elections on December 7

KENYA will hold its first multi-party elections for 26 years on December 7, according to state television, Reuter reports from Nairobi.

President Daniel arap Moi had said often the polls will be "very soon" and election fever has gripped the nation during weeks of often violent campaigning. A late and reluctant convert to democracy, Mr Moi faces a fragmented and squabbling opposition whose disarray enhances the chances of his ruling Kenya African National Union (KANU).

In a rare display of unity, the opposition yesterday unveiled a common strategy for reviving the faltering economy. A coalition

of four opposition parties said they had agreed joint policies to revive growth and bring prosperity to the east African country.

The strategy pledges to reform the mainstay tea, coffee and tourism sectors and to end corruption which has driven away foreign investment.

A heavy turnout was reported as Ghanaians voted in presidential elections which ended the military rule that has helped make the country a model of economic success, AP reports from Accra.

● The Angolan capital Luanda was quiet yesterday and life started returning to normal under a United

Nations-sponsored ceasefire after weeks of fighting that state radio said killed up to 1,000 across the country.

However, witnesses said a convoy of military vehicles moved out of Luanda to the north-east towards Bengo province where Unita rebels were reported last week to have massed 7,000 soldiers.

● Cameroon's President Paul Biya was sworn in for a third five-year term yesterday, promising changes to the constitution and silencing challenges to his re-election with an army crackdown in the north-west. Reuter adds from Yaounde, Mr John Fru Ndi, opposition candidate, is under house arrest.



OPPOSITION STRIKE CALL DISRUPTS BUSINESS IN INDIA

Market porters sleep on their push-carts outside shuttered shops in New Delhi yesterday. A nationwide strike call by the opposition Bharatiya Janata Party (BJP) disrupted commercial activity and some clashes were reported in parts of India yesterday, Shriraz Sidhva reports. The strike was called to protest against a decision

by the government of Mr P V Narasimha Rao to raise fertiliser and petroleum prices. Most markets and businesses in New Delhi and the four BJP-ruled states were closed and rail and bus services were partially disrupted. Elsewhere the call by the Hindu right-wing party to paralyse the country was ignored. In

Bombay, the office of the chief minister was ransacked by political activists who gatecrashed the state headquarters. In Bihar, BJP leaders alleged that police used force to disrupt peaceful processions. The strike is part of a BJP attempt to increase its support among farmers in a party made up mostly of traders.

Such a poll would oust Prince Norodom Sihanouk, the former leader of the guerrilla alliance and now the neutral head of state, as president.



Egyptian President Hosni Mubarak casts his ballot in the country's local elections yesterday. Turnout was said to be low, and the opposition put up no candidates in 85 per cent of 2,779 seats. Moslem fundamentalists, who boycotted previous local elections and the last parliamentary elections in 1987, are seeking to capture at least a handful of key local councils.

Thailand moves to cut power of military

THE CABINET of Mr Chuan Leekpai, the Thai prime minister elected in September in the aftermath of a bloody confrontation between the army and pro-democracy forces, yesterday revoked laws giving the military sweeping powers, Reuter reports from Bangkok.

"From now on, for all military operations that deal with civilian or political rallies, the armed forces must seek approval from the cabinet," Major-General Sombat Rodphong, the deputy defence minister, told reporters.

The Internal Security Act was promulgated in 1979 after a coup. It empowered the

armed forces chief to mobilise troops and order military operations throughout the country.

When mass protests erupted in May against the military's domination of politics, military chiefs used the law to crush demonstrations. Dozens of people were killed and hundreds wounded.

General Suchinda Kraprayoon, the unelected prime minister and leader of a 1991 coup, was forced to resign in disgrace. An interim government removed other senior commanders. Pro-democracy parties have vowed to break the army's grip on politics.

Ambush by Sri Lanka rebels leaves 32 dead

TWENTY-THREE servicemen and nine rebels were killed yesterday when Tamil separatists ambushed a patrol in eastern Sri Lanka, Reuter reports from Colombo.

A helicopter gunship, armoured cars and about 500 troops were rushed to reinforce the patrol, which was surprised by about 100 guerrillas in the eastern Amparai district, an army spokesman said. The 40-strong joint air force-police patrol was searching for road mines when they were surrounded by the rebels. Police said 13 airmen and 10 policemen were killed. The bodies of nine rebels

from the Liberation Tigers of Tamil Eelam, who are fighting for a separate state in the island's north and east, were recovered after a one-hour battle, the officer said.

The ambush was the latest in a series of hit-and-run attacks on similar road patrols carried out mainly in the east by marauding groups of Tigers. The Tigers are trying to drive Sinhalese and Moslems out of the island's eastern areas, which the rebels claim are part of their traditional homeland. About 25,000 people have been killed since the Tamil rebels launched their separatist struggle in 1983.

Iran wants Turks to quit Iraq

THE FOREIGN policy commission of Iran's parliament urged Turkey yesterday to withdraw its troops from northern Iraq, Reuter reports from Nicosia.

The official Iranian news agency Irna quoted the committee as telling Ankara to stop "the killings of innocent Kurdish civilians."

Turkey has sent more than 20,000 troops into northern Iraq to flush out more than 8,000 guerrillas of the separatist Kurdistan Workers' Party (PKK) believed to be hiding there.

Birthrate among Israel's Jews falls to its lowest ever level

By Hugh Carnegie in Jerusalem

THE BIRTHRATE among Israel's Jewish population has fallen to its lowest ever level, but mass immigration from the former Soviet Union has sustained the politically sensitive level of the Jewish majority in the country, latest government figures show.

Jews accounted for 82 per cent of the 5m population living within the

pre-1967 borders of Israel and both parts of Jerusalem in 1991, despite a fall in the birthrate per Jewish woman to 2.6.

The rate among Moslem women rose slightly to 4.7. But the difference was offset by Jewish immigration of 170,000, most from former Soviet territories.

Demographics are an integral part of the Arab-Israeli dispute. Israeli governments have long feared that the proportion of Arabs in the popu-

lation would rise to levels that would threaten the Jewish character of the state.

They have looked to immigration as the way to bolster the Jewish majority.

Ironically, the latest fall in the Jewish birthrate was attributed to very low birthrates among the immigrants, partly because of a high proportion of the elderly among the newcomers. But demographers say the overall Jewish majority is unlikely to

alter much over the next 20 years if immigration continues at present rates.

However, they say immigration has only postponed by a few years Jewish fears that the balance of Arab-Jewish populations within Israel and the occupied West Bank and Gaza Strip will be equal within 25 years.

At present there is a 60 to 65 per cent Jewish majority. This likelihood is a factor behind the Labour-led government's willingness to cede most of

the West Bank and Gaza to the Palestinians.

Within pre-1967 Israel, recent immigration has made former Soviet citizens the biggest ethnic group, overtaking those of Moroccan origin.

This, too, may have a political effect. Support from recent immigrants was a big factor in Labour's June election victory over the hard-line Likud party, which draws much of its support from North African communities.

China's ethylene city waits for investors and infrastructure

Angus Foster, recently in Xiamen, examines planning and funding shortfalls at Haicang's ambitious development project

HALF an hour's drive from China's special economic zone of Xiamen City is one of the largest infrastructure developments on the mainland's eastern seaboard.

Haicang, which planners say will cost Rmb5bn (£578m) to complete, is being hailed as China's "ethylene city", with plans for deep-water berths to unload oil and for factories to convert it into a host of downstream plastics and chemicals.

The first apartment blocks are finished, mainly to house farmers dislodged by site flattening. New roads are nearly ready to be tarred, and will relieve the existing dusty track, which groans under the weight of construction vehicles and residents taking produce to market.

Despite the activity, Haicang may become famous as a planners' folly. Designed to attract foreign petrochemical companies, none have yet arrived.

In 1990, Mr Wang Yung-ching, the chairman of Formosa, Taiwan's largest plastics company, announced he would build a naphtha cracker in Haicang, China, and some foreign observers, assumed much of Taiwan's downstream plastics industry would follow.

But Mr Wang was blocked by political pressure from Taiwan's government. There are now rumours he is looking elsewhere in China.

Mr Xie Tingmu, a Haicang official, said foreign investors will come, but only when the infrastructure is ready. "Haicang is an objective necessity. It will continue with or without foreign investors," he said. Whatever Haicang's fate, it neatly illustrates the difficulties faced by China in co-ordinating rapid economic coastal growth with its infrastructure. While Haicang runs before it can walk, the area's ports, roads and telecommunications limp along behind, unable to

keep pace with double digit economic growth.

Xiamen's port is operating above capacity. Some foreign companies now send goods by land to Hong Kong, even though it costs about 30 per cent more.

Roads inland and up the coast are often poor and so choked that progress is very slow. Due to the influx of foreign businessmen seeking cheap land and labour, flights to Hong Kong are booked months in advance and long distance telephone lines are engaged by mid afternoon.

Xiamen's port is being expanded and by the end of next year capacity will increase to 9.5m tonnes from 6m tonnes. Following growth in container trade, which expanded 6 per cent in terms of tonnage and 66 per cent in containers handled last year, capacity is set to quadruple to 400,000 containers a year.

A further development plan, which according to Mr Lin Zhongdi of Xiamen's harbour bureau has won "oral" but not yet official approval from China's State Council, will take capacity to 1m containers a year by the end of the century.

A Rmb260m, three-year expansion of the city's airport is under way and will lift passenger capacity to 5m. up from this year's forecast of 2m. Also, the runway is being extended to cater for Boeing 747s.

Xiamen's Posts and Telecommunications Bureau has spent Rmb130m increasing the number of local lines five times to 50,000 and long distance lines six times to 2,000.

The bureau now aims to at least double local lines by 1994, according to Mr Li Zhenqun, the bureau director.

But these improvements barely seem able to keep pace with demand. Once the port is improved, road traffic will again switch back to using con-

tainers. Mr Li said as soon as new phone lines are installed they are overloaded.

Most of the money for these projects has been provided by the central and local governments, although the port expansion has been partly financed by a \$36m loan from low-interest World Bank loan. Kuwait provided \$18m of low-interest loans towards the airport and Japanese government loans have helped buy telephone equipment.

But central government funding is becoming more difficult to obtain, mainly because Beijing's bailing out of loss-making state industries has led to a budget deficit.

Xiamen is also having to compete for funding and low-interest loans with other coastal areas, especially the Pudong development in Shanghai.

Xiamen officials said they will increasingly have to seek new sources of funds. Follow-



ing the example set by Guangdong, where Hong Kong businessmen have built roads and power stations, Fujian is also now courting foreign investors for infrastructure projects.

So far the results have been small in comparison with Guangdong, but are encouraging nonetheless. Fujian's drawback is that although Taiwanese investors, who have language and often family ties

with the province, are investing in processing industries, they have not targeted infrastructure. Such projects are probably seen as too risky because of Taiwan's continuing rift with China and the lack of investor protection agreements between the two sides.

Possibly the most ambitious project being considered is a "bullet train" from Xiamen to the provincial capital Fuzhou. Japan's Ikawa Trust is conducting a feasibility study on the \$22n project.

If built, it would reduce travel time between the two cities to one hour. At present it takes six and a half gruelling hours by car along unpredictable roads.

Hong Kong investors have taken a 30 per cent stake, worth Rmb600m, in a 1.2m KW coal-fired power station being built near Xiamen. Another Hong Kong company has become the first foreigner to invest in Chinese port owner-

ship, rather than management, with a 80 per cent stake in a Rmb200m berth in the city's port.

Earlier this year a Chinese Malaysian investor exchanged contracts to build a 40 km highway from Xiamen to the inland city of Zhengzhou, which would greatly improve communications away from the coast. But the investor is now being investigated by Hong Kong securities officials, and the project is in doubt.

Western observers say Fujian's slower economic growth means it does not yet share Guangdong's power shortage problems but in other respects it is lagging behind. What Fujian needs, they say, is a large-scale infrastructure investment like that made by Mr Gordon Wu with his "super highway" north from Shenzhen. As construction continues at Haicang, Xiamen officials are left to wonder if, and when, Mr Wang is their man.

THE MAASTRICHT VOTE

Loyalty of the cabinet may prove essential for PM

By Philip Stephens,
Political Editor

MR JOHN MAJOR must win. A victory over his party's Euro-sceptics will not in itself restore the authority of his government but it is an essential precondition.

That much was agreed by the prime minister's friends and enemies at Westminster on the eve of today's vote. If he loses, his colleagues will urge him to soldier on. But loyalty is not an adequate substitute for the widespread conviction that his government's authority would be fatally undermined. The Euro-sceptics deny it publicly, but acknowledge

privately that they are ready to wreck Mr Major's premiership. Ironically, the actual vote has no legal significance. It was promised by Mr Major after the Danish referendum - a device to placate Tory Euro-sceptics before Labour had swapped its conversion to Europeanism for the more familiar politics of opportunism.

The motion for debate calls simply for the MPs to give the go-ahead for consideration in its detailed committee stage of the European Communities (Amendment) Bill. Labour's amendment says that it should be delayed until after the Edinburgh summit. But the legisla-

tion has passed its second reading, so, win or lose today, Mr Major could technically press ahead whenever he wished. Defeat would deprive him of moral authority. In politics, that is far more important than legal niceties. He would no longer be in charge of his party. His foreign policy would lie in ruins alongside the economic policy that perished on "Black Wednesday". At best, the prime minister could hope to bring the Maastricht bill back after next month's summit. More practically, it is hard to see how the process could resume until next year.

Downing Street has retreated awkwardly from the sugges-

tion that defeat would prompt a general election. It is true that each and every one of Mr Major's cabinet signed up to the strategy behind today's debate, some albeit reluctantly. But it has been impossible to find one of them who believes that losing today would be sufficient cause to issue an open invitation to Mr John Smith to win an election.

Mr Major's own position is more difficult. In private as well as public, he has made clear that Maastricht is about both Britain's place in Europe and his personal authority. He has suggested that the rejection of the treaty would be an historic mistake comparable to

Britain's decision not to sign the Treaty of Rome.

He regards the struggle as a fight for the soul of the Conservative party. He has said that if it is not willing to trust him to defend Britain's self-interest in Europe then it had better find someone else.

The prime minister has made the direct link between Europe and the economy. His economic strategy was destroyed by sterling's ignominious exit from the European exchange rate mechanism. Now the new emphasis on recovery, based on temporary indifference to the level of the exchange rate and further cuts in interest rates depends for its success on

a restoration of political confidence.

So if his party decides that it is ungovernable, Mr Major might stand down. There will be no direct pressure to do so from his colleagues. Mr Kenneth Clarke, the most powerful and one of the most pro-European member of the prime minister's cabinet, is his most obvious successor, but he would not wield the dagger. The Euro-sceptics and their Thatcherite colleagues have no credible candidate of their own.

If Mr Major wins, he will have the chance to salvage his government. It will not be easy. The economic outlook

remains bleak, the Euro-sceptics promise trench warfare when the Maastricht bill returns, the council tax is beginning to look like an unexploded bomb. This week's cabinet sessions underline the difficulties the government will face in meeting its £244.5bn public spending target.

One senior minister at the centre of the storm confessed recently that it was "madness" to stick to a figure agreed when all were convinced that economic recovery was under way. But like DM2.95 before it, it had become a totem from which the government could not budge. Creative accounting will ease some pressure, but

the Autumn Statement next week may foreshadow another stream of Tory rebellions like that over the coal industry.

An unaccustomed victory instead of a defeat for the prime minister would bring the possibility also that the Conservative party might come to its collective senses. The disgruntled and disenchanted on the back benches may realise that rebellions harm no one but their own party and their own leader. Mr Major would have a breathing space during which the economy might yet show signs of life; and a chance at least to begin the painstaking process of rebuilding his authority.

THE OPTIONS

MPs will vote twice at the end of the debate.

First on the Labour amendment. Then on the government motion.

If the amendment were carried, the government motion would be dead and MPs would effectively be asked to vote again on the Labour amendment. This calls for the return of the Maastricht bill to be delayed till after December's European summit in Edinburgh.

A Yes vote on the Labour amendment by 324 MPs or fewer, depending on the number of abstentions, would carry it.

Tory rebels have a number of tactical voting possibilities. They might opt collectively to support the Labour amendment in the first vote. If the amendment were then carried, they could logically support the amended government motion in the second.

If the the Labour amendment falls, with or without their support, then hard-line rebels would probably vote against the original government motion, which gives a green light for the Maastricht bill. That represents the rebels' best chance to stymie the process. Soft Tory rebels would probably abstain.

The situation is further complicated since a few Tory MPs have made clear that they will not back the Labour amendment even if they subsequently oppose the government motion. Some or all Ulster Unionists might act the same way. This suggests Labour's amendment could fall by a misleadingly wide margin.

THE FACTIONS

THE GOVERNMENT wants its motion carried in order to strengthen Mr John Major's negotiating position at December's European summit in Edinburgh.

Cabinet ministers warn wavering colleagues *sotto voce* that the prime minister's credibility in Europe may be at stake. Mr Major warns of the loss of inward investment and of a collapse in economic confidence in the UK if Maastricht's ratification is hindered.

THE GOVERNMENT MOTION:

"That this House notes that the European Communities (Amendment) Bill received a majority of 244 at its second reading and was committed to a committee of the whole House.

Acknowledges that the House was promised a debate prior to the committee stage.

Notes that the Danish Government's intentions have now been clarified. Recalls the Lisbon Council's commitment to subsidiarity, the Birmingham Council's agreement on a framework for decisions to implement that principle and the practical steps already taken to achieve it.

Recognises that the UK should play a leading role in

the development of the European Community to achieve a free market Europe open to accession by other European democracies, thereby promoting employment, prosperity and investment into the UK.

And invites Her Majesty's Government to proceed with the bill in order that the House should consider its provisions in further detail."

MR RICHARD RYDER, the government's chief whip, has presided over a concerted lobbying operation by ministers, as the government has sought to head off the biggest uprising by Tory MPs since Mr Major became prime minister. Some meetings have been made public, other cajoling and arm-twisting operations have been kept behind the scenes.

THE LABOUR AMENDMENT:

"That this House notes that the European Communities (Amendment) Bill received a majority of 244 at its second reading and was committed to a committee of the whole House, recalls the conditions relating to the Danish position and to subsidiarity laid down by the Prime Minister in the

debate in this House on 24th September, and believes that these conditions cannot be satisfied until the Edinburgh European Council at the earliest and that therefore further consideration of the Bill should wait the outcome of that meeting."

THE TREATY

Details prove vital to sceptics

By Alison Smith

AMONG ALL the lists of potential Tory rebels on Maastricht, the document at the centre of the row is in danger of going unnoticed - except by the Euro-sceptics who have examined it clause by clause and swap detailed references to articles and protocols.

The 130 or so pages of the English text of the treaty include the changes to the existing treaties about the European Economic Community - or the European Community as it will now become - as well as 17 protocols and 33 declarations.

The most important changes to the previous treaties relate to economic and monetary union. Those would set up in three stages the replacement of national currencies with the Ecu as the single European currency, and the replacement of national central banks with an independent European central bank.

The transitional provisions include the setting up of a European Monetary Institute to strengthen monetary co-operation and facilitate the use of the Ecu; and progress by the member states towards low inflation, stable exchange rates and low budget deficits, as the "convergence criteria" for the basis of economic and monetary union.

The UK has secured an "opt-out" from the final stage of economic and monetary union, but the treaty language makes clear that all member states, whether or not they are likely to be included in the single currency, are expected to work towards meeting the convergence criteria. Other changes to the treaties themselves extend the Community's policy range in some areas and give the Community a new role in others: such as industrial policy, research and technological development and trans-European transport and telecommunications networks. It extends the Community's role in environmental policy and paves the way for it to have a say in civil protection, energy and tourism.

Separately from the amendments to earlier treaties, the Maastricht agreement provides for intergovernmental co-operation in foreign and home affairs.

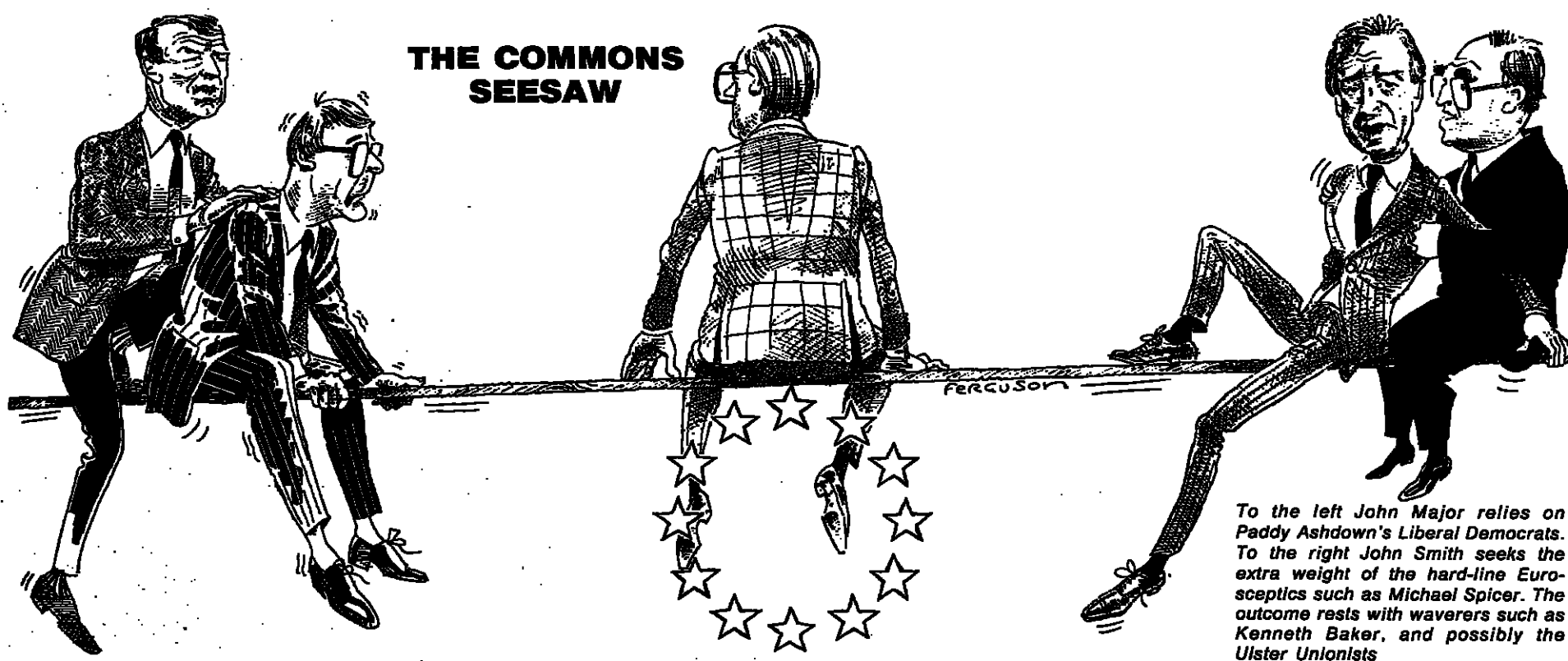
On foreign and security policy, it is the Council of Ministers that will decide what should be covered in a common policy; although the Commission will be "fully associated" with the policy.

Most foreign and security policy decisions will have to be taken unanimously, but some decisions about implementation will be taken by qualified majority voting. The Western European Union, the European element of Nato, is given a prominent role in the defence implications of the foreign policy.

The most significant declaration - and the area of the other UK opt-out - is that on social policy. The UK will be unable to take part in the discussions about improved working conditions and social protection, but will not have to bear the costs of those policies being implemented.

Of the other provisions, the most controversial at Westminster is the setting up of a "cohesion fund" to help less developed countries in the Community.

Beyond the changes themselves, the language of Maastricht is itself an issue at Westminster. In particular, its references to marking a new stage in creating "an ever closer union" and its establishment of "citizenship of the Union" will doubtless be raised today whenever the government argues that the treaty is a turning point away from European centralisation.



In the balance: how MPs line up on Maastricht

FOR	AGAINST
Labour (1 may abstain)	11
Liberal Democrats	6
Plaid Cymru/Scottish Nationalists	26
Democratic Unionist Party	9
Ulster Unionists	1

FOR	AGAINST
Labour (1 may abstain)	269
Liberal Democrats	7
Plaid Cymru/Scottish Nationalists	4
Democratic Unionist Party	3
Ulster Unionists	1

To the left John Major relies on Paddy Ashdown's Liberal Democrats. To the right John Smith seeks the extra weight of the hard-line Euro-sceptics such as Michael Spicer. The outcome rests with waverers such as Kenneth Baker, and possibly the Ulster Unionists

Businesses back Major over links with Europe

By Michael Cassell,
Business Correspondent

IF BRITAIN'S biggest companies had a vote in the Commons tonight, the endorsement of Mr John Major's pro-Maastricht motion would be beyond question.

Although some of them have reservations about aspects of the treaty and look to the Edinburgh summit for clarification, any doubts are overcome by what is seen as the need for Britain to be in the mainstream of European political and economic development.

Judging by the reaction of more than 50 of Britain's largest corporations, the blueprint for continuing development enshrined in the Maastricht treaty is not a cause for wild enthusiasm.

But the consequences of

being left on the sidelines are considered too bleak to contemplate. Many companies believe that, whatever the difficulties, a Britain at the heart of Europe has a better chance of resolving them.

Few businessmen share the apparent disinterest of Mr Michael Gifford, chief executive of Rank Organisation. He said he had not read the treaty and had no view on it, adding: "I have no view about what they do in the Commons. I just get on with minding the store, if you don't mind."

Elsewhere, there may be confusion over the full implications of a treaty on which Mr John Major is staking so much but there is a recognition that the outcome of the debate will have a profound impact on Britain's prospects.

Its ability to continue to act

JAPANESE-owned companies in Britain believe a "no" vote in parliament today over the Maastricht treaty could damage their businesses in the long term, Daniel Green writes.

Most Japanese-owned companies contacted by the Financial Times said their immediate business plans would not be affected by the vote, whatever the outcome.

They said that over time Britain should move closer to the rest of Europe, especially over the single market and single currency.

Reflecting the views of other

senior executives, Mr Kazumi Ueda, managing director of County Durham bearings maker NSK, said: "The UK and other governments are being hasty in pushing it [the Maastricht treaty] through. A rejection would cause confusion for a short time [and] in the long term the treaty should be approved."

One dissenting voice came from Willis Corroon, the insurance group, which backed full British participation in a common market but said that failure to back the Maastricht treaty would not necessarily lead to isolation from the rest of Europe. The company said there was "probably more than one way of going about" continuing to develop the EC.

Mr Ed Wallis, chief executive of PowerGen, said a vote

against the government would help to leave Britain "isolated within Europe on an unknown course" which would harm its trading prospects.

That view was echoed by Mr Mike Hoffman, group chief executive of Thames Water, which has ambitions to expand in Europe. He said: "Not everything in Maastricht is ideal, but we do not want the country or our company to be isolated from the rest of the community."

Mr Richard Everitt, a director of BAA, the airports operator, said that if Maastricht was a code word for the UK playing a leading role in Europe, it had to be supported.

Additional reporting by Michio Nakamoto, Cathy Milton, John Griffiths, Philip Rastorne, Richard Evans and Richard Donkin.

BUSINESS OPINION

BRITISH CHAMBERS OF COMMERCE want Yes vote to help end the damaging decline in business confidence. Richard Brown, British Chambers director of policy, said: "Uncertainty has even exporters have not taken advantage of the devaluation of sterling and confidence levels are at their nadir. The vote must be a step towards ending that uncertainty."

A two-speed Europe has only two gears: forward and reverse. Ratification of the treaty will, on balance, be supremely beneficial. Failure to ratify, Mr Brown said, will leave Europe without a clear long-term strategy for economic and political stability.

ENGINEERING EMPLOYERS' FEDERATION is looking for "a clear Yes" tonight, underpinning a firm commitment to Europe. Mr Neil Johnson, federation director-general, said the UK - which last year sent 65 per cent of its engineering exports to the rest of Europe - "simply cannot afford to send the wrong signals to our European partners."

"Maastricht may have its shortcomings but they pale into insignificance compared with the problems we could face if we reject it. Being temporarily outside the ERM is one thing; being permanently outside the mainstream of the Community is altogether something more serious."

The UK should develop Maastricht, not reject it.

BUILDING EMPLOYERS CONFEDERATION believes a vote rejecting the government motion would inflict incalculable harm on Britain and provoke a political crisis further damaging confidence, according to Sir Brian Hill, its president.

Sir Brian said a No vote would mean Britain was "putting its head in the sand" when it needed to play an active part in the development of Europe.

"It is vitally important for industry that urgent decisions are taken which will set the British economy on course for growth," he said.

With construction facing its worst recession since the 1930s, further political upheaval must be avoided, he added.

INSTITUTE OF DIRECTORS: today's vote is a constitutional oddity and an unnecessary distraction from detailed debate on Maastricht.

The IoD queries the government's urgency to ratify, given the recent disarray in the exchange rate mechanism, which is central to the Maastricht programme. It views the debate more as a battle for survival by Mr John Major, and it believes he has stuck his head above the parapet unnecessarily.

Mrs Ann Robinson, head of the IoD policy unit, says: "We do not need this debate. It has had its second reading and should proceed to the committee stage, where all its imperfections and ambiguities can be properly examined."

SOCIETY OF MOTOR MANUFACTURERS AND TRADERS: warned Tory MPs that the re-emergence of the UK as a successful car manufacturing nation would be seriously at risk if the government was defeated tonight.

The optimistic medium-term outlook for UK car producers, according to Sir Hal Miller, chief executive of the SMMT, "would be undone should we be faced with a two-speed Europe or the break-up of the single market."

Urging Tory MPs "not to put Britain into Europe's slow lane", the SMMT warned that EC competitors would seek "any excuses to prevent UK car exports by Japanese car manufacturers operating in Britain".

CONFEDERATION OF BRITISH INDUSTRY: director-general Mr Howard Davies said ratification of Maastricht was vital to Britain's national interests and for a revival of economic confidence.

Failure to back the treaty would leave Britain's EC partners to resurrect it or to construct something like it. "The government will need to make some difficult decisions in the coming months if we are to right the balance in our economy and secure recovery," Mr Davies said.

"Without the authority it will gain from completing the ratification process, it will be unable to make those tough decisions stick, with damaging consequences for the nation as a whole."

NEWS: UK

Cabinet split in public spending row

By Alison Smith, Philip Stephens and Catherine Milton

THE OUTLINE package of economic measures to be announced in next week's autumn statement was agreed by Mr John Major yesterday as cabinet battles over 1993's £24.5bn public spending total looked set to continue right up to the weekend.

After a meeting of almost two hours yesterday morning, ministers said a cabinet struggle over public sector pay remained unresolved, with some ministers still pressing for a total freeze rather than a 2 per cent ceiling, to free more resources for capital programmes.

A further cabinet meeting tomorrow is likely to be given an indication of the economic measures in the autumn statement, including changes in the rules on private sector financing of capital projects.

Plans by EDX, the cabinet committee on public spending, to impose deep cuts on the defence budget ran into strong opposition from Mr Malcolm Rifkind, the defence secretary.

Mr Rifkind is said to have warned that thousands of jobs would be lost. The future of some defence-dependent companies might also be threatened.

Others arguing strongly for increased allocations were Mrs Virginia Bottomley, the health secretary, and Mrs Gillian Shephard, the employment secretary.

Unemployment and the pay of public sector workers were two of the central concerns raised with Mr Norman Lamont, chancellor of the exchequer, in a meeting with nine representatives from the Trades Union Congress.

After the discussion - the first bilateral meeting between the chancellor and the TUC since the early 1980s - Mr Norman Willis, general secretary of the TUC, said union leaders told Mr Lamont that things were "awful out there".

In the 80-minute meeting, the union leaders presented their plan for economic recovery, and told Mr Lamont it would be "morally unacceptable" for low-paid workers to be hit by a pay freeze because of the problems over the economy.

Insurer calls for industry glasnost

IT IS almost an apostasy for the life insurance industry to acknowledge merit in the growing chorus of public complaints about its products.

Yet, Mr Mick Newmarch, chairman of Britain's largest life insurance company, Prudential, has done just that in a hard-hitting speech aimed at setting a new agenda for the industry.

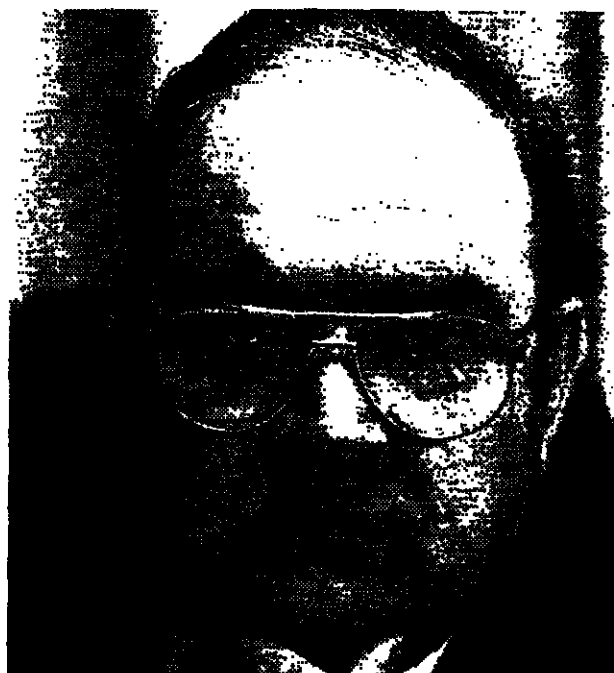
Mr Newmarch singled out disclosure: what should consumers know about a life insurance product before they buy it? This question has been at the heart of probably the greatest onslaught of bad press the industry has ever seen.

The life industry has been fighting a rearguard action for the two years to stave off disclosure. The information which is wanted ranges from how much commission a sales agent earns to the number of years needed to earn a 100 per cent refund of premiums paid on an endowment policy cancelled before maturity - information the public wants to get its hands on. This rearguard action has given weight to claims that the industry has something to hide.

Mr Newmarch said the industry had compounded the problem by insisting that critics do not know what they are talking about. Claims that criticism by the Office of Fair Trading was ill-informed were wrong. "We should consider that maybe it is we who do not understand the fair trading environment," he said.

Resistance to better disclosure had added to public scepticism about the merits of life insurance - a scepticism that could be a factor in the recent decline in sales of life and pension products.

Mr Newmarch's greatest turn-around was to suggest the Office of Fair Trading was the appropriate body for setting a disclosure regime, and that its concerns were legitimate.



Keeping pace with changing demand, Mick Newmarch yesterday

environment," he said.

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"Either it is possible to persuade the OFT and the most professionally competent media commentators that the current level of criticism of life industry products and sales practices is unjustified; or (if not) we must take on board the message that some of our products and our methods of presenting them have not kept pace with the changing expectations of the public," Mr Newmarch said.

Norma Cohen

Britain in brief



House prices fall by 2.7% in October

House prices fell by 2.7 per cent last month, the biggest monthly fall for two years, according to the Nationwide building society.

The drop in house prices is likely to increase pressure on the government to come up with a package to help the housing market in the autumn statement on November 11. The drop is the fifth successive monthly fall and follows a 1.4 per cent decline in September. The larger Halifax house-price index showed a much higher September fall of 3.1 per cent, but the month was seen as atypical because of the end of the stamp duty relief period in August.

Policy pledge on competition

The government has reaffirmed its commitment to the promotion of competition as the best weapon against industrial decline.

Mr Neil Hamilton, corporate affairs minister, said the government saw competition "as the spur to increased efficiency and innovation".

Mr Hamilton stressed that when the EC merger regulation came up for review next year, the government would want to test any proposals for widening its scope against the UK's original objectives for the regulation - a firm competition base and a focus on cross-border deals with implications for the EC.

CBI sees less optimism

Optimism among small firms has tumbled in the past four months, according to a Confederation of British Industry report. The report mirrors the falling production, weakening

orders and further job losses predicted in last week's CBI survey of big companies.

Exports are the only positive sign in a bleak outlook, with firms expecting a slight increase in foreign orders over the next four months.

Spending on machinery and innovation is falling and training schemes have been reduced to keep costs down and protect already-slim profit margins, said the survey of more than 800 smaller firms.

Challenge to public pay deal

The government's plans to hold down public sector pay have been directly challenged with the announcement of a 4.9 per cent pay increase for fire-fighters.

The increase was made under a pay formula which equates the earnings of the 42,000 fire-fighters retrospectively to those of the upper quartile of adult male manual workers. In April this was 6.2 per cent according to the government's recent New Earnings Survey but the formula projects this figure forward to November to take account of the most recent pay increases.

The Local Government Management Board, which negotiates on behalf of local authorities described the 12 months deal as the last of this year's public sector pay round.

Strike to hit City services

Local government workers will strike today to join a rally in London in protest at cuts in services and jobs in the capital. Services could be disrupted by the strike in several boroughs, including Ealing, Hillingdon, Islington, Camden and Greenwich.

Car crime falls 2.6%

Car crime has slowed by 2.6 per cent, reversing a three-year rising trend, government officials said. The first three months covered by Car Crime Prevention Year, April to June 1992, showed falling car crime in almost half of all police-force areas in England and Wales.

Matrix chief helped MI6, court told

By John Mason

THE MANAGING director of Matrix Churchill, the Coventry-based machine-tool maker, passed information about eastern European affairs to MI6 for more than 10 years before he began spying on Iraq, an Old Bailey jury heard yesterday.

Mr Paul Henderson was also praised by his MI6 controller for his bravery in gathering intelligence on Saddam Hussein's regime, the court heard.

Mr Henderson is one of three former Matrix Churchill directors who deny breaching export controls by pretending that machine tools exported to Iraq in 1987 and 1988 were for civil, not military, purposes.

His MI6 field controller, giving evidence from behind a screen, confirmed that Mr Henderson had worked for MI6 from the early 1970s until 1983, giving information on commercial contracts behind the Iron Curtain. He had been "reactivated" for this work between 1985 and 1986.

The officer said Mr Henderson had frequently visited Iraq and gathered intelligence knowing Saddam Hussein's reputation for ruthlessness and that foreign agents were particular targets of the regime.

Mr Henderson had done this when his business was under various pressures. "There are very few people who would take such risks and take them

in their stride," the MI6 officer told Mr Geoffrey Robertson QC, for Mr Henderson.

During their meetings, Mr Henderson had supplied information concerning a number of long-range missile projects planned by the Iraqis.

He gave his MI6 controller blueprints of a projectile which could be fired 1,200km and said Matrix Churchill had been approached by the Iraqis to make machine tools for the project, known as ABA.

A technical report from one of these meetings was sent to a "very high" ministerial level, the officer said.

Questioned by Mr Allan Moses QC, prosecuting, the officer said Mr Henderson had

not told him Matrix Churchill would be carrying out the work on the ABA project, nor that it had a contract to supply the Chilean arms dealers

Industries Cardoen with bomb fuses destined for Iraq.

In September 1989, Mr Henderson was interviewed by MI6 technical experts at a "safe house" near the Foreign Office in London. Afterwards, he expressed concern that the delay in processing his company's export licences could cost hundreds of jobs at the firm.

His MI6 contact told him he would be better off complaining to the Foreign Office than MI6 and introduced him to a suitable contact.

The trial continues today.

Central bank's official reserves fall by £2bn

By Emma Tucker, Economics Staff

THE BANK of England's underlying official reserves fell by £2bn last month, a higher than expected fall, but one which threw little light on the Bank's intervention to prop up sterling in September.

The drop followed September's record fall of £4.4bn but together the two figures amount to only a part of the £15-£20bn currency reserves allegedly spent by the Bank shortly before the pound's devaluation on September 16.

The net final fall of \$539m was smaller than the underlying fall because the Bank was able to draw on \$3bn of the special borrowing of up to £400bn of foreign currencies arranged at the beginning of September to boost the pound.

Overall reserves were also boosted by \$846m of Ecu Treasury bill proceeds. How much the Bank spent to keep sterling in Europe's exchange rate mechanism may not be known for months. In the ERM it was possible for the Bank to disguise intervention by borrowing from European central banks; the borrowings did not have to be repaid for up to nine months.

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TURKISH AIRLINES

"We care more"

In the second of two articles on BHS, John Thornhill looks at the widespread purge of staff that formed a key element in the restructuring of the UK retail group

Battle to rebuild family store

In January 1990, a group of 15 senior managers from BHS apprehensively assembled in a hotel in Newbury to discuss the future prospects for the ailing UK retail group.

The mood was subdued, tense and heavy with anticipation. The company's trading background had sharply worsened over the past few weeks as the recession had begun to grip. The arrival of an enigmatic American chief executive two months previously had excited a flurry of speculation. And a frightful gale, which buffeted the hotel, knocking out its electricity supply, heightened the sense of crisis as the group huddled around an open fire to review the company's performance.

"We just sat around that fire and talked and talked and talked for three days. We discovered very few strengths and lots of weaknesses," recalls one participant. BHS's past mistakes were dispassionately dissected. Its competitive position was analysed and a forthright management consultant's report was kicked around in a free-for-all discussion.

Out of the talk was born a simple 50-word mission statement that was to serve as a blueprint for a series of whirlwind changes that were to transform the group over the next two years.

"The BHS mission is to be the first choice store for dressing the modern woman and family. We are committed to service, quality, harmony, innovation and excitement in all that we do. We will succeed by being a focused organisation in dynamic partnership with our customers, suppliers and each one of us," the statement ran.

When the new chief executive, David Dworkin, joined the company he knew he had to act fast to reverse the sense of drift. "We had to superimpose some vision on the business very quickly. We also had to streamline it. There was too much noise and too many layers," he says.

Dworkin says the company was a staid, male-dominated hierarchy

where head office staff only met the directors when they were invited to do so. At lunch time staff were strictly segregated into different dining rooms. BHS's head office contained 1,041 people while similar-sized retailers had half that number.

Dworkin promised a refreshing new informality. BHS staff still recall the shock of attending meetings when Dworkin strolled in wearing a T-shirt, cycling shorts and bare feet, eating a pot of yoghurt.

To simplify and focus the structure of the business, Dworkin launched a twin-track attack to effect change: first, by taking out several management layers, reducing costs by £10m; and second, by introducing incentives for the talent remaining in the business and recruiting fresh thinkers from outside. People were to become the company's greatest source of competitive advantage.

In all, 900 head office and store managers were dismissed, including 10 of the 15 managers who attended the Newbury meeting. About half the 150 store managers were replaced, along with 60 per cent of buyers and merchandisers, and all but two of the 20 most senior line managers.

The main criterion for deciding whether to retain people came from their perceived flexibility to accept change. Dworkin says he was looking for "a sensitivity and a sense of looking at the world anew. We needed an openness and a religious commitment to the view that things could be done better".

Dworkin says some mistakes were undoubtedly made but is unre-



Steve Bedford with staff at the BHS Oxford Street store: he has launched a scheme to scrutinise every group activity

pentant at the scale of the purge. "I would argue that it did not destroy morale. It might have made a lot of people unhappy but my role is not to be sensitive to that, but to be sensitive to shareholders and give them a productive team. The new team now has extremely high morale," he argues.

Given the staggering turnover of staff, it is a wonder to an outsider how the company continued to

function at all. Yet while this "creative destruction" was being implemented, a simultaneous thrust allowing new ideas and people to emerge was also appearing. An action programme, headed by Steve Bedford, the human resources director, known as Activity Value Analysis (AVA) was launched to scrutinise and improve every group activity.

Bedford tirelessly explained the

company's mission statement to managers at a series of seminars and they, in turn, discussed with their staff how it could be achieved.

Twelve individual "change agents" took a prominent role in stimulating this participative process. "We put these people together from different levels and different functions to be the leaders of change. They trained and energised everyone else. We received more

than 5,000 ideas on how to improve the business," says Bedford.

As a result, old ways of running the business were updated. New performance targets were devised and successful staff were given bonus payments.

This change process cascaded through the company embracing every function and department. At the store level, layers of back office managers were stripped out and the proportion of staff on the sales floor increased from 60 per cent to 80 per cent.

As one example, Mark Bowland, store manager at the BHS store in the Metro Centre in Gateshead, says he cut the number of managers from 23 to 11. But the obverse side of this painful process was that it devolved greater responsibility both to the remaining managers and increasingly to the shop floor associates, who were encouraged to exercise greater individual initiative.

The whole process attempted to tilt the management effort towards supporting ideas from the front-line staff. "At the end of the day we are the people who take the money," says Bowland.

This "unfreezing" process was accompanied by extensive training programmes. Shop floor staff, including part-timers, were encouraged to take the retail exams for the National Council of Vocational Qualifications. For the first time, BHS devoted more of its training budget to its 15,000 shop associates than to its head office staff. "I think the greatest respect you can pay to anybody is to want to invest in them," says Bedford.

But training also yielded cost ben-

efits by reducing substantially the high levels of staff turnover. It also meant that sales associates could increasingly assume the functions of junior managers.

Yet in spite of all these improvements, it is arguable that BHS has, as yet, only won the easy victories. The dramatic gestures and changes have been made. Now comes the infinitely harder process of establishing a "learning organisation" whereby continuous daily improvements can be made.

The company has also to avoid the danger simply of introducing a new orthodoxy that will itself ossify. "Because we challenged every aspect of what we did, we made people think that everything we did in the past was wrong and everything we were going to do in the future was right. We have to overcome that attitude," says Helena Packshaw, marketing director.

Although sales per square foot are beginning to show impressive improvements they are coming from a low base and still lag a long way behind BHS's main rivals. Based on estimates from Verdict, the retail consultants, BHS's sales per square foot were less than one third of the £536 that Marks and Spencer achieved last year.

Some staff say morale is still fragile as a result of the massive personnel upheaval. One insider at BHS, who does not wish to be named, says: "The company is still run by fear. There was a lot of flab in BHS that had to be cut out but people are still afraid for their jobs. It is not a nice atmosphere."

Some observers suggest that the impetus of change may also dissipate since Dworkin became chief executive of the parent Storehouse group in July and is now helping to push through a similar change process at Mothercare. The doubts remain but Dworkin, at least, is convinced that the company has pushed the reforms far enough to ensure they are sustained. "Change is a mind-set," he says. The first article on BHS appeared on this page last Wednesday

Managers unite in attempt to raise profile

Andrew Adonis reports on this week's launch of the Institute of Management in Britain



Replaced: the old BIM logo (left)

The new Institute of Management, launched this week, brings together the British Institute of Management and the Institute of Industrial Managers. With 75,000 members, it claims to be Europe's largest management institute.

However, the IM is more than an amalgamation of two associations. Its aim is to raise the profile of management training, emphasising the development of management competences - not just the imparting of management theory - through qualifications approved by the National Council

for Vocational Qualifications.

As Sir Derek Hornby, IM chairman, put it at the launch: "We have a central aim - to develop good management practices. We achieve this by implementing management lead body standards through our education programmes and by including business and

management courses within our integrated approach to professional management."

Peter Wilson, vice-chairman of IM and director of Luton College's management college at Fritteridgebury, is an ardent advocate of the competence approach to management training. He is also anxious to see more done

for managers who are unemployed or facing redundancy.

His college enrolls unemployed managers, or those facing redundancy, on courses at reduced fees to enhance their job prospects and help them re-orient themselves.

The IM is marketing hard its "competent manager" programmes. These are self-study packages

leading to a certificate and diploma in management at NVQ levels 4 and 5, available on an in-house basis or through a public programme offered through IM or one of its licensed centres.

At the heart of the programme is a "modular training structure", focused on the application of an individual manager's working

environment. With 103 branches, the institute runs tailored courses for companies and more than 70 short "open" courses on all the main areas of management practice. It has an information centre based at its Corky office.

The Institute of Management, 2 Saxon Court, Strand, London WC2R 0EZ

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BUSINESS AND THE ENVIRONMENT

Scott's clean sheet

As pulp manufacturers gather in London next week to negotiate their annual round of contracts with buyers, many are being asked about their environmental performance for the first time.

Their answers may well be crucial. Scott, the world's largest tissue manufacturer, has decided to exclude suppliers that fail the group's environmental standards, even if they are cheaper than competitors. At stake is the 150,000 tonnes of paper Scott uses in the UK every year. In future, the 700,000 tonnes it consumes in Europe annually will be scrutinised.

Martin Kybert, environmental affairs manager, explains that an assessment of the life-cycle of its products showed the greatest impact could be made in the manufacture of wood pulp.

The company launched a two-year environmental assessment programme of its pulp suppliers. They were asked to provide details of their emissions, including carbon dioxide and sulphur dioxide. Their forestry practices and replanting policies were also considered.

The differences, says Kybert, were startling. In the worst case, one supplier produced 17 times more carbon dioxide than the best supplier.

Scott dropped three of the worst suppliers, which were in North America and Scandinavia, while giving preferential treatment to the best. Those dropped represented 10 per cent of all its suppliers.

"Some of those excluded were really surprised. Nobody had ever asked them before for details of their carbon dioxide emissions," said Kybert. One supplier is investing heavily in new plant and telephoning regularly to report progress.

Kybert says Scott can gain competitive advantage through better environmental performance. Consumers are demanding products that are less damaging to the environment but that do not compromise on quality and value for money.

Paul Abrahams

Mention Jari in Brazilian business circles and people generally raise their eyebrows. As the world's biggest tropical forestry project, Jari is the product of an American shipping magnate's dream to plant trees in the Amazon to produce pulp and paper as well as cultivate rice and raise buffalo.

After 25 years, billions of dollars, a lot of ridicule and setbacks, Jari may just be turning into a model for industrial development and silviculture in tropical rainforests.

The project, now run by a group of Brazilian companies, is the largest employer in the Amazon and this year expects its first net profit. More important, it is defying the established view that poor Amazonian soil would not support large-scale agroforestry.

Arriving at the remote site at the confluence of the Amazon and Jari rivers, it is easy to see why the project was labelled crazy. Accessible only by small aeroplane or slow boat from Belém, 250 miles away, Jari is a bizarre sight.

Skimming over lush forest for more than an hour, the aeroplane lands in Monte Dourado, a neat but somewhat out-of-place company town complete with club, hospital and identical houses with front lawns.

Drive through the jungle and suddenly at the edge of a muddy river in the middle of nowhere arises a gleaming metal pulp mill and powerplant. Pines that would look more at home in the Swiss Alps grow in sandy fields. In cleared areas herds of demused water buffalo wander, looking as if they would rather be wallowing in the mud far away.

Nowadays, environmental concerns mean that permission would never be granted for such a project. But back in the late 1960s Brazil's military rulers were eager to "colonise" the Amazon, which makes up 60 per cent of national territory.

Started in 1967, Jari owes its existence to the determination of the late billionaire Daniel K Ludwig, who loved to do things which everyone said were impossible.

Intended as his crowning glory, the scheme to tame the jungle and install a pulp mill, buffalo farm and rice plantation in an area the size of Belgium, was the biggest and craziest of all.

Convinced of an impending world food and fibre shortage, Ludwig sent men all over the world in search of the perfect tree for pulp. He also needed a parcel of land near a deep water harbour in a country with cheap labour.

Undaunted by its remoteness he settled on Jari, an area of wild jungle populated only by Indians, monkeys and a few rubber-tappers. Inside its 1.6m hectares, Ludwig built a port, railroad, 9,000km of

Christina Lamb explains how a billionaire's tropical dream is starting to pay off after 25 years

A strange case of jungle fever



roads and the town of Monte Dourado from scratch, shipping in people from the northeast and industrialised south.

The first problem came when the seedlings planted on the newly cleared land promptly died. Already 69 when the project began, Ludwig was in a hurry. Rather than experimenting with many species to see which fared best in the poor Amazonian soil, he risked millions on a monoculture of gmelina, a tree native to India and Burma, chosen because it could be harvested for pulp in just six years.

Gmelina was a disaster, succumbing to disease when it finally did grow. In 1973, Ludwig brought in pine trees, planting many thousands of hectares. These, however, grew slowly in the sandy soil and torrential rains. The rice plantation was a dismal failure despite a complicated system of irrigation by dikes.

In 1978, undaunted by such setbacks, Ludwig shipped in a Japa-

nese pulp mill with 220,000 tonnes per year capacity. A wood-fired power plant, was also ordered, towed by barges across three oceans and up the Amazon in 87 days.

A year later, eucalyptus was planted and it is now the main crop, taking up 40 per cent of the 100,000 hectares of planted trees. By this time, Jari had become the focus of Brazilian fears that imperialist foreigners would expropriate the Amazon.

Rumours abounded that it was an American military training camp. Unable to find partners or finance, Ludwig had to abandon plans for a second pulp mill and newspaper plant. Jari was put up for sale in 1980 amid a financial and managerial crisis.

Ludwig's planned investments of \$300m-\$500m (\$180m-\$300m) had run into billions, while the first year of pulp mill operation in 1979 saw revenues of just \$70m instead of the \$300m he had predicted.

In 1982 Jari was bought for

around \$300m by a group of 22 Brazilian companies. With the government providing finance and technology in the form of advisers from Embrapa, the Agricultural Research Institute, the Jari company is now producing 291,000 tonnes of pulp per year, of which 80 per cent is exported. This year it will finally move out of the red.

The turnaround has been mostly due to the new attention on technical concerns. Facing an imminent lack of wood, the new owners decided to increase the diameter of trees, increase plantation size, and cultivate a type of eucalyptus more suitable to local conditions.

Contracted in 1984, Sergio Coutinho, the project's forest adviser, developed a new model. After extensive soil surveys which discovered 23 different soil types, he classified the land depending on how intensely it could stand alteration - low, medium, high or very high - and it is now exploited accordingly. A soil correction programme

was initiated as well as cloning to produce the best tree for each area. Coutinho has no illusions about the immensity of the task. "Man is by nature a destroyer. The big challenge here has been to develop this large frontier of tropical forest differently."

As a result of his work Jari has shown an incredible increase in productivity. Eucalyptus is now yielding an annual 27.7 cu m/hectare - 110 per cent up on 1982; pine 19.9 - 49 per cent up; and gmelina 22.6 - 18.9 per cent up. These results fly in the face of traditional wisdom that the shallow nature of Amazonian soil would cause productivity to decrease, forcing the land to be abandoned as has happened in agricultural projects all over the forest.

"We expected that with such poor soil, the first rotation would grow but then production would fall. Instead we now have areas on their third and fourth rotation and the yield is rising," Coutinho says. He believes that through forest management combined with adjusting trees to local soil characteristics, average yield could reach 40 cu m/hectare by the end of this decade.

A natural target of attack by green activists, environmental concerns have top priority at Jari. Dismissing the thesis that the forest should be left untouched as "absurdly romantic" - the people of the Amazon deserve a decent living too," Coutinho points out that exploited areas account for less than 10 per cent of the total land. Native forest has been left on slopes and around water and in 400m-wide bands between plantations to allow circulation of animals as well as acting as a barrier against the spreading of disease.

Eight 20,000-hectare genetic reserves have been created to serve as fully preserved control samples of areas of different forest types to be cut down for economic activity. Coutinho's team has catalogued more than 629 species of trees, all of which are monitored in situ.

Nevertheless, the sight of rows of spindly eucalyptus replacing centuries old Amazonian trees is shocking. But Eduardo Barreto, president of the Jari company, says: "Producing pulp in the Amazon exposes you to fire, but criticism is based on ignorance. We have four hectares of native forest for every one of planted forest. We are protecting biodiversity and proving that it's possible to generate an environmentally friendly and economically sound business in the Amazon."

Ludwig's dream of taming the jungle may not have been realised, nor would anyone cite Jari as the solution to the Amazon's development problem, but after 25 years of hard work and enormous amounts of money at least it is providing an example.

Roll out timber carpet

A US carpet company, Collins and Aikman, has turned the messy business of carpet recycling on its head.

Instead of labouring to separate the components of a carpet, which often include wool, nylon and latex or bitumen and several years of grit, the company has found a way to grind up old carpet and add a catalyst to create a synthetic timber.

The market for recycling carpets is potentially huge. Millions of tonnes of carpets are dumped each year in landfill sites in Europe and North America. Dumping costs up to 75 cents a yard, according to US chemicals company Du Pont. It may not even be an option for much longer: in Germany, for example, proposals are being considered to force manufacturers to take back old carpets.

Recycling has proved impossible. Like unscrambling an egg, it is tough to separate a carpet into its original components.

Collins and Aikman's solution is to granulate the carpet, backing and all, and then mix and extrude it with a catalyst. The resulting material can be mixed with other waste plastics before being moulded into a range of products including chairs and tables, marine timber, toothbrush handles and weatherproof flooring. A park bench made from recycled carpet is already on sale in the US at \$240 (£150).

The catch is price. The synthetic wood is two to three times more expensive than timber. But the company argues that buyers of the carpet would save money through not having to pay for incineration or landfill charges, while buyers of the synthetic wood benefit from a material which lasts 15 to 25 years instead of five for treated wood.

The company has spent \$8m on new production equipment at its plant in Dalton, Georgia. "We will recycle any vinyl-backed carpet free of charge," says David Pyles, managing director of international sales at Collins and Aikman. "We'll need all the carpet we can get."

Daniel Green

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May

Few are worried about the prospect of currency union; Page 2

LUXEMBOURG

Wednesday November 4 1992

Analysts' predictions of a decline in banking have not materialised; Page 3

SMALL would seem to be beautiful for little Luxembourg on the eve of the European single market. The European Community's smallest member is also its most prosperous.

And at a time when ethnic tensions and a distrust of foreigners are on the increase in other parts of Europe, Luxembourg is an oasis of calm, even though nearly a third of its residents and half of its workers are from other countries. The Grand Duchy's remarkable process of integration and acceptance has been assisted by the fact that most of the foreigners are fellow west Europeans and fellow Catholics from Portugal, and that unemployment is negligible at 1.7 per cent.

As the EC's only land-locked member it has always been forced to ply trade with the rest of the Twelve in a single European market of 360m consumers, Luxembourg and its population of 400,000, representing just 0.1 per cent of the total, will benefit even further from the country's location and its multi-lingual skills.

But being small is usually not an advantage when it comes to wielding power and Luxembourg remains vulnerable to European and world events beyond its control. Its status as a founding member of the EC in the late 1950s gave it immediate influence out of all proportion to its size — a mere 57km wide and 80km long. In the original Grand Duchy had little difficulty in making its voice heard. Nor has it found itself badly outmanoeuvred or outnumbered since the six became 12. But the EC enlargement to perhaps as many as 18 states threatens to dilute Luxembourg's power.

A test case for the future is the siting of the proposed European central bank. Politicians and financiers say the bank belongs by rights to Luxembourg, because of a 1965 agreement that it should become home to the EC's financial and judicial institutions.

Mr Pierre Werner, the former prime minister, elder statesman and the man whose Wer-

As parts of Europe plunge into economic and political uncertainty, Luxembourg remains an island of calm, its size and flexibility enabling it to stay a step ahead of its neighbours. Can it maintain this position, asks Ronald van de Krol

Prosperous little oasis

ner Report helped set the EC firmly on the road to monetary union in 1970, says: "We are duty-bound to claim the bank, because we would otherwise abandon positions which had been clearly established. You can't simply sweep the 1965 agreement aside."

Unfortunately for Luxembourg the decision is clearly a question of politics. Luxembourg's best chance of winning the bank is its emergence as a compromise candidate to break any deadlock between Germany, France and Britain.

Luxembourg is keen to have the bank, partly to crown its achievements of the past two decades — the creation of a thriving banking and financial centre, which compensated for the decline of the once all-important steel industry.

Since 1992, the number of banks in Luxembourg has increased fivefold to 192, providing thousands of new jobs, generating a sizeable amount of government revenue and making the Grand Duchy a financial centre in its own right, albeit a specialised one focused on niche areas.

The collapse of the Bank of Credit and Commerce International (BCCI), which was legally domiciled in Luxembourg but which carried out the bulk of its activities elsewhere, has not, it seems, had a lasting effect on the Grand Duchy's reputation. BCCI came

to Luxembourg at the start of the banking boom in the early 1970s, and the country's regulatory body, the Institut Monétaire Luxembourgeois, says a bank of this sort would not be granted a licence today.

Officials admit that they cannot claim credit for having foreseen the rise in banking. The reasons for the rapid growth, they say, must be sought in other countries, principally the US, whose tax-rule changes in the 1960s created the Eurocurrency market. Banks flocked to Luxembourg to take advantage of its lack of stamp duty and withholding tax.

But Luxembourg is being too modest. The country has repeatedly shown that it is capable of moving quickly to exploit a niche market.

One example is the investment fund market. Within a month of the EC Commission's issuing its directive on European-wide investment funds in 1988, Luxembourg's parliament had revised its domestic laws to reflect the change, enabling the country to steal a march on larger financial centres. Today, Luxembourg is home to more than 980 investment funds. A similar case of niche thinking is Luxembourg's commercial satellite and television sector.

Another explanation for the country's success is its bank secrecy laws, which make it a

magnet for the wealth of Germans, Dutch, French and Belgians, who like to keep their savings in a place which they can reach easily and quickly by car but which is out of bounds to their own countries' tax authorities.

Flushed with the success of this type of private banking, Luxembourg has no intention of sacrificing its banking laws on the altar of European unity and harmonisation. Mr Pierfranco de Vita, managing director of Chase Manhattan Bank in Luxembourg, says: "The government has given clear signals that it would keep Luxembourg's special status alive within the EC."

But Luxembourg can expect to come under further pressure from its EC partners, who would like nothing more than to claw back lost savings.

Although Luxembourg will probably manage to fight sweeping changes for years to come, there is a realisation that the niches which it has been able to exploit because of differences in national laws are bound to dwindle if European integration gathers pace.

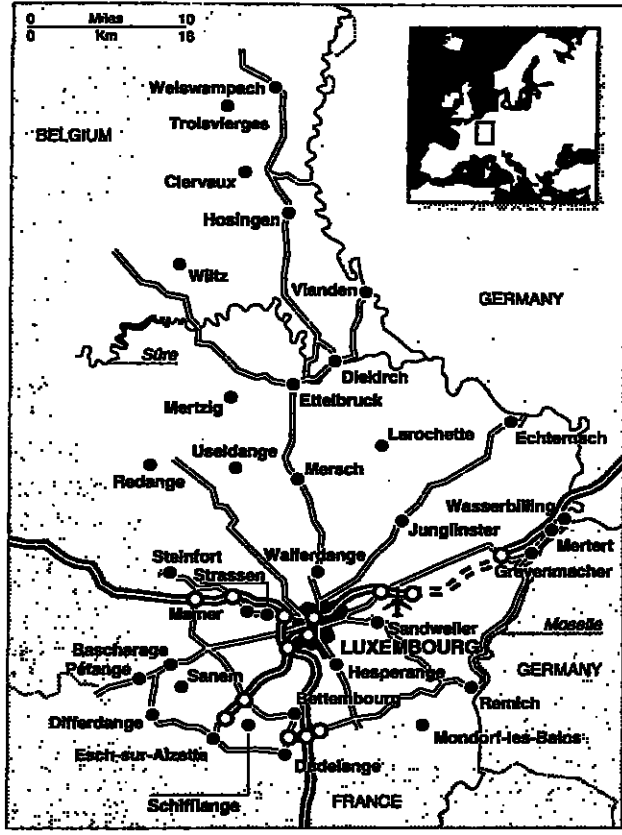
For this reason, the new buzz-word in Luxembourg financial circles is "training". The idea is to refine and boost skills and expertise, so that the country remains attractive, whatever the future of European regulations.

"The advantages which Luxembourg has will be reduced over time. What must remain, however, is a high degree of know-how," says Mr François Colling, leader of the Christian Social party in parliament. "Look at investment funds. Why do we have so many here? It has nothing to do with bank secrecy, but everything to do with specialising in the sector."

Being small, in other words, means being nimble and flexible enough to keep one step ahead of more powerful neighbouring countries. So far, Luxembourg has shown that it is capable of running races with the giants of Europe and beating them over certain distances and in certain categories. The challenge, however, is to repeat the feat not just once, but year after year.



Luxembourg city: small is beautiful for the European Community's only land-locked member
Picture by Glyn Gwyn



Diversification has helped keep the economy in good shape

Banking takes up steel slack

PARADOXICALLY, the strength of the Luxembourg economy in 1992 is probably best illustrated by the difficulties facing its single biggest employer, the Arbed steel group.

Thanks to a policy of economic diversification pursued since the big steel crisis of the mid-1970s, the economy continues to perform well, in spite of the malaise in steel.

Banking, plastics, rubber and new industries, such as glass production, are clearly helping to compensate for the downturn in the steel market, which is hurting not only Arbed but also steel producers across Europe.

The figures testify to the achievements of diversification. Growth in industrial production held steady at 2 per cent in the 1992 first half, in spite of the slowdown in demand for steel, and overall economic growth for 1992 is forecast to match the 3.7 per cent increase seen in 1991. Growth in 1993 is projected to be only slightly slower at 3.5 per cent.

Inflation, currently around 3 per cent, has been kept in bounds, defying a two-point rise in value-added tax (VAT) to 15 per cent, carried out to bring Luxembourg more into line with its EC partners.

All in all, Luxembourg can boast that it is one of the few signatories to the Maastricht treaty that already fulfils all five criteria for economic and monetary union. As a small, open economy, however, it remains susceptible to weaknesses imported from the outside, particularly from Germany, its biggest trading partner.

Still, the ease with which Luxembourg has managed —

so far — to ride out the current steel crisis is a far cry from the country's heavy dependence, 30 years ago, on iron and steel which made it acutely vulnerable to the steel business cycle.

"At the peak in 1974, Luxembourg was, in per capita terms, the biggest steel producer the world has ever seen, producing 17 tonnes per head of population per year, against only half a tonne for the US," says Mr Michel Waringo, a director of Banque Générale de Luxembourg.

Since then, Arbed's size has been severely reduced, and the resulting slack in the economy has been taken up by the banking sector. In nearly 30 years since the steel industry shrank, the number of banks has increased fivefold to 192, giving the tiny Luxembourg capital more banks per square metre than any other city in the world.

The number of people employed by the steel industry has dropped sharply to just 8,000, from 26,000 in 1974, while the arrival of scores of new banks in the 1980s has increased employment in the banking sector to 15,000. Overall, services now generate 65 per cent of GDP, with banking alone accounting for 15 per cent, while traditional industry makes up 25 per cent of GDP — a near-reversal of the old ratios.

"It would be dangerous to go below this 25 per cent level," says Mr Georges Schmit, an industry specialist at the economic affairs ministry. "Luxembourg paid a heavy price in the past for relying on one sector, and policy now is aimed at a balanced, diversified economic structure."

Continued on Page 3

Luxembourg, where the first European Community institution was set up in 1952 and which has been chosen as the juridical and financial centre of the European Community, is ready to welcome the European Central Bank.

Located in the heart of Europe and easily accessible, the city of Luxembourg is the predestined site for the future European Monetary Institute. Here the fathers of Europe once installed the High Authority of the European Coal and Steel Community as well as the European Court of Justice. Later, the European Investment Bank and the Court of Auditors established in Luxembourg, thus strengthening further the financial vocation of the capital of the Grand Duchy.

Its cosmopolitan character, its political stability and the liberal attitude of its leaders have turned Luxembourg into a banking centre with international renown. And yet, despite this spectacular expansion, Luxembourg has preserved its human touch and beautiful surroundings, offering a quality of life appreciated especially by the many foreigners who have made Luxembourg their second home.

Those who, in 1965, entrusted Luxembourg with the juridical and financial institutions of the EC, had many good reasons to do so. The most important among them has been certainly the efficient working in a neutral and independent environment.

Apparently, there seems to be some difficulty in choosing the best location for the European Central Bank. May we suggest the wisest choice ?

Promotion Board
Luxembourg, site of the European Central Bank
Chaired by Pierre Werner

The European choice

LUXEMBOURG 2

THE TINY Luxembourg stock exchange hopes to evolve into a real centre for the trading of securities, building on its success as a centre for their listing.

The exchange, located in unprepossessing premises above a shopping arcade in the Grand Duchy's capital, has already proved that it is a listing centre to be reckoned with: the bourse is "home" to more than 10,000 securities, most of them international and many denominated in some 20 currencies other than the Luxembourg franc.

Eighty-eight per cent of the world's outstanding Eurobonds are listed in Luxembourg, with the exception of Euro-Mark bonds, which tend to be listed in Germany.

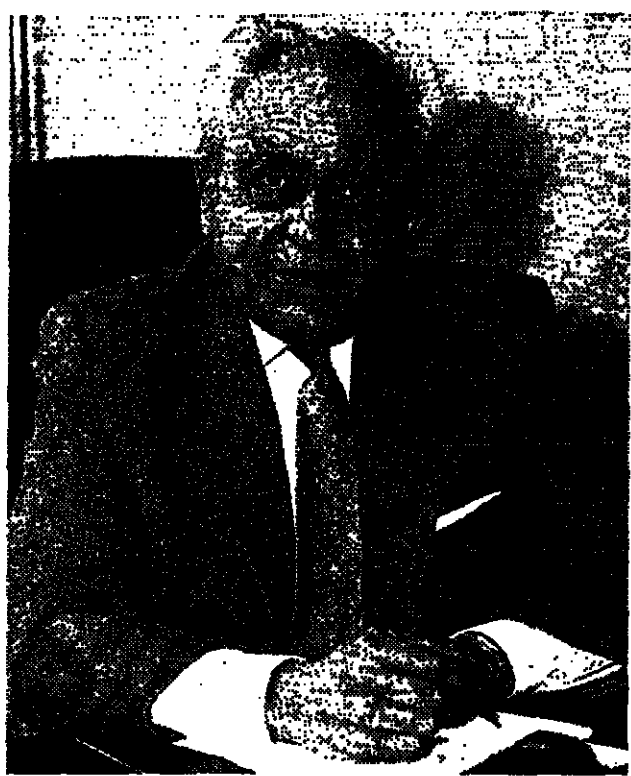
The bourse also lists up to 95 per cent of all the bonds denominated in Ecus, barring the big British and French sovereign issues which were made partly to press their own countries' case for capturing more Ecu trading. Luxembourg has also capitalised quickly on the trend towards investment funds, listing 1,680 domestic and foreign funds.

Having put itself on the map as a listing centre, Luxembourg now wants to boost the modest volume of trading that takes place on its floor. In fact, one important strategy - new computer-assisted trading - will mean that traders no longer have to be physically present on the trading floor itself.

The new system, which is being introduced in phases for some types of securities and which has met with some delays since its introduction in April 1991, means that there is no difference between trades done from a trading station on the floor itself and those executed from the premises of a bourse member's offices elsewhere in Luxembourg.

The bourse has also reformed the fee structure, in an attempt to attract newcomers to the exchange's current list of 84 members and thereby boost liquidity. Instead of taking a percentage of the commission income generated by members, as before, the stock exchange has started to charge flat fees, which means that members will pay relatively less the more they use the exchange as a trading vehicle.

At the same time, the previously mandatory schedule of fees which banks and brokers charged clients has now become a "recommended"



Edmond Israel: the bourse is meant to be a marketplace

THE STOCK EXCHANGE

Volumes need to rise

Official price list				
	1988	1989	1990	1991
Bonds	6,972	7,424	7,504	7,248
National	94	104	107	113
International	6,878	7,320	7,397	7,135
Stocks and shares	232	280	289	286
National	62	61	65	70
Foreign	190	199	204	196
Investment funds	1,010	1,269	1,463	1,589
National	963	1,339	1,465	1,567
Foreign	47	30	28	22
Total	8,234	9,053	9,296	9,341
Warrants & others	908	1,078	1,143	1,163
				1,090

Issued by ESE various legal entities

Source: The Luxembourg Stock Exchange

table, enabling market parties to decide among themselves what the fee level should be.

Another plan is for the lengthening of trading hours for the most actively traded categories of securities. At present, trading is limited to between 10.45 am and 1.15 pm. A decision on which securities will fall under the expanded

hours has not yet been taken, but the most likely candidates are the most active Luxembourg franc and Ecu bonds, as well as the more international companies' shares, such as Arbed, the Luxembourg steel group; Shell; and Philips, the Dutch electronics company. Eventually, Luxembourg hopes to be able to offer con-

tinuous trading in key listed securities. At the moment, it operates a "rotated" market, in which each security is called in succession, with trading taking place only when the bond or share has actually been called.

Together, the bourse's various initiatives are designed to lure "off-exchange" transactions between banks and brokers back on to the Luxembourg exchange.

"We realise that quite a lot of transactions will still continue off the exchange," says Mr Edmond Israel, the stock exchange's chairman. "But the bourse is meant to be a marketplace, and that means that we need to increase our trading volume."

Trading volume in 1991 totalled Lfr 34.8bn (\$700m), a rise of 32.5 per cent on 1990, mainly reflecting a higher level of trading in fixed-interest securities. Volume in the 1992 first half rose by a more modest 5.5 per cent to Lfr 18.1bn, compared with Lfr 18.1bn a year earlier.

Despite these increases, Luxembourg's is still one of Europe's smallest bourses when measured by turnover alone. Unlike many other exchanges, its turnover is heavily weighted towards bond trading, reflecting the country's small pool of listed corporations.

Of the 1991 turnover figure, just one-seventh was generated by stocks and shares. And of the top 10 traded shares, two are foreign - Philips and Royal Dutch/Shell. All told, the bourse numbers only 70 domestic shares - the biggest of which are Arbed and the country's banks - and 196 foreign shares.

Mr Israel says that the bourse hopes to increase the number of stocks and shares, both domestic and foreign. But he adds that every European stock exchange should identify and emphasise its strengths and areas of specialisation, which, in the case of Luxembourg, are bonds and investment funds. "I don't believe that it is wise, or even possible, to do everything," he says.

"We have to be realistic," Mr Israel explains. "The size of the country is such that the international part of the bourse, particularly the international bonds, naturally far exceeds the Luxembourg part, particularly the domestic stocks and shares sector."

Ronald van de Krol

Concerns focus on the location of the European central bank

No qualms over union

UNLIKE SOME people in Britain or Germany, Luxembourgians don't worry about the prospect of giving up their currency for the greater good of European monetary and economic union (Emu).

After all, nobody under the age of 70 can remember the days before Luxembourg entered into a monetary and economic union with neighbouring Belgium in 1922. For nearly three generations, Belgium's central bank has determined Luxembourg's monetary policy. As a result, Belgian francs have become fully interchangeable with Luxembourg francs throughout the Grand Duchy.

When shopping, Luxembourgians do not know or care whether they are paying with Luxembourg or Belgian francs: the two currencies look different but are of equal value.

Still, to many people in Luxembourg, a single European currency is preferable to the link with the Belgian franc. Memories of the Belgian franc's surprise devaluation in 1982 - when Belgium failed to warn the Luxembourgians that their own currency would also be worth 8 per cent less than the day before - have not entirely faded.

"The advantage for us is that we'll have a governor in the new European central bank, and that we'll have a say in policy as well as a stake in its capital," says Mr Jean Asselborn, leader of the Socialists in parliament.

The only element of Emu that does cause excitement in Luxembourg, at least at the higher levels of the financial community and the political elite, is the question of where the European central bank will be located.

Luxembourg has staked its claim, based on a 1965 agreement; but many other European cities have put forward their own candidacies, and Luxembourg's best chance seems to lie in deadlock between the big EC members.

Whatever the location of the European central bank, tiny Luxembourg, with its heavy

reliance on foreign workers and foreign exports, has little choice but to look to Europe for its future. "A Luxembourg without Europe or Europeans is not possible," Mr Asselborn says.

Not surprisingly, then, Luxembourg had few fundamental qualms about having ratified the Maastricht Treaty in July, making it the first EC member to do so. Although controversy surrounded the move, the debate concerned procedural matters, focusing on the question of exactly when the Luxembourg constitution must be changed in order to take account of Maastricht, rather

than one step below national government, lending much weight and significance to town politics. "The reality behind municipal elections is very different from country to country in the EC," says the mayor of Luxembourg City, Mrs Lydie Wurtz-Poller.

The issue is so contentious in the Grand Duchy that the framers of the Maastricht treaty said postponements would be possible for countries facing special problems. This assurance, drafted specifically for Luxembourg, means that although foreigners could theoretically be allowed to vote in 1999 (the first local elections

after the scheduled change in the constitution), they may not be able to exercise this right until the next poll in 2005. Similarly, Portuguese, Italians and other non-Luxembourgians from EC states will not be able to vote in elections for the European parliament until 1999 at the earliest.

Thanks to its externally-orientated economy, experts account for nearly 85 per cent of GDP - Luxembourg will not have to make wrenching changes to prepare for the single European market. But it will have to adapt to new challenges, not least the opening up of public procurement tenders to other EC competitors.

In practice, smaller Luxembourg companies, which were used to focusing on their own home market, will probably find greater competition from companies in the "Saar-Lor-Lux" region, which embraces Germany's Saarland and parts of Rheinland-Pfalz, France's Lorraine, the Belgian province of Luxembourg, and Luxembourg itself. In this region of 6m people, Luxembourg not only forms the geographic nucleus but also exerts the greatest economic attraction, because of its prosperity.

Mr Etienne Reuter, the head of operational consultancy at Arthur Andersen in Luxembourg and project manager of a study into medium-sized companies in the Saar-Lor-Lux region, says: "Construction companies in the region find Luxembourg attractive, because of its high purchasing and the government's active investment programme." To compete, Luxembourg builders will have to look beyond their national borders for opportunities in neighbouring regions.

Mr Reuter believes the region holds big economic potential for companies in all four countries, but says "national borders are still a problem for smaller companies." More and better information is needed to help companies throughout the Saar-Lor-Lux to take advantage of the single European market on their doorstep.

Ronald van de Krol

Thanks to its externally-orientated economy - exports account for nearly 85 per cent of GDP - Luxembourg will not have to make wrenching changes to prepare for the single European market

than on the merits of greater union in monetary, financial and security matters.

Opposition Liberals argued that elections had to be called before ratification could take place, in line with the normal procedure for any planned change in the constitution.

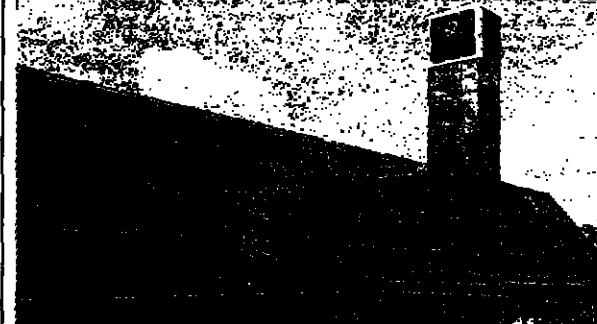
The government, a coalition of the Christian Social party (comparable with Christian Democrats in other European countries) and the Socialists, said the changes to the constitution could wait until 1994, the date of the next scheduled elections.

This was because the one provision in the treaty requiring a change to the constitution - the right of EC nationals to vote in the local and European elections of EC countries - will not come into force for Luxembourg until at least the second half of the 1990s.

The treaty's granting of voting rights to EC nationals is a sensitive matter in Luxembourg, where more than a third of the population is foreign. In the capital alone, up to 45 per cent of residents are foreign, most of them from elsewhere in the EC.

In a country as small as Luxembourg, local government is

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HIGHLIGHTS OF THE CALENDAR OF TRADE FAIRS AND SHOWS

(Subject to changes)

- 22.01-24.01: VAKANZ '93 - Tourism-Show
- 06.03-14.03: EUROPLEINAIER - European Trade Fair for Leisure and Open-Air
- 11.03-14.03: ANTIQUES AND FINE ARTS EXHIBITION
- 27.03-28.03: INTERNATIONAL DOG SHOW
- 25.04-28.04: EUROPE-MEUBLES FURNITURE SHOW BELGIUM-LUXEMBOURG
- 15.05-23.05: LUXEMBOURG INTERNATIONAL TRADE FAIR (Consumer goods)
- 18.09-19.09: BRITAIN IN LUXEMBOURG
- 09.10-17.10: LUXEMBOURG INTERNATIONAL TRADE FAIR (Investment goods)
- 23.10-24.10: KRUSE INTERNATIONAL Collector Car-Show & Auction
- 26.10-29.10: BUREAU-TEC Interregional Trade Show for Office and Communication Technology
- 26.10-29.10: INTERNATIONAL BANKING SEMINAR
- 08.11-10.11: COMREGIO - Municipal Day with specialized exhibition
- 17.11-19.11: I.N.R.R. - International Symposium and Trade Show on Road Development and Safety
- 18.11-20.11: INTERNATIONAL UNIVERSITY & PROFESSIONAL TRAINING INFORMATION SHOW
- 25.11-28.11: AAA '93 - Arts • Antiques • Actualities
- 27.11-28.11: BAZAR INTERNATIONAL

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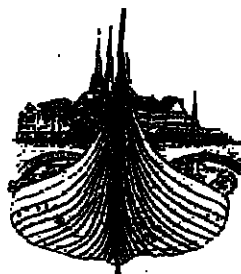
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PROFILE: JEAN-CLAUDE JUNCKER

Waiting in the wings

AT 37, Mr Jean-Claude Juncker is a young man seemingly in no hurry to assume what most Luxembourgers take for granted will be his destiny - to become prime minister, perhaps for a decade or two.

The Grand Duchy's finance minister (he also holds the labour and social security portfolio), Mr Juncker has enjoyed a fast-track ascent through the ranks of government and of his Christian Social party - mirroring those of the current premier, Mr Jacques Santer, and his predecessor Mr Pierre Werner.

But Mr Santer, aged 55, appears in no great haste to hand over the reins of power, and there has been widespread speculation that Mr Juncker might take a sabbatical as an EC commissioner in Brussels, starting at the beginning of next year.

The suggestion was made to the Luxembourg government by Mr Jacques Delors. The Commission president was apparently impressed by Mr Juncker's performance during Luxembourg's EC presidency in the first half of 1991, when he helped steer negotiations on economic and monetary union (Emu) towards agreement in Maastricht, and brokered agreement on harmonisation of indirect taxes, a vital element of the single-market programme.

The putative commissioner is non-committal about his future: "It's up to the government to decide, and I am not privy to all its secrets." If Mr Juncker does not, after all, go to Brussels, it may be because there is no obvious replacement capable of filling his shoes at the finance ministry. Born in the small town of Réding-sur-Attert, on the Belgian border, he inherited a taste for politics from his uncle, a Christian Social party MP and mayor of the northern city of Ettelbruck.

Like many Luxembourg politicians, he has a degree in law (from Strasbourg), but has never practised. After leaving university, his first job was as parliamentary secretary for his party, and it was from this position that he was abruptly brought into government in



Juncker: patience seems to be one of his virtues

December 1990, at the age of 33.

Initially secretary of state (junior minister) for labour and social security, Mr Juncker was promoted to full minister in 1994. He inherited the finance ministry, one traditional stepping stone on the way to the premiership, five years later, and another, the chairmanship of his party, two years ago.

The nearest thing he has known to a setback in his career was a serious car accident in 1989, in which he suffered a broken leg and collarbone.

According to those who know him well, the accident has enhanced Mr Juncker's already strong sense of public duty, even mission, as well as his confidence in his own ability to carry this out.

He presents a somewhat austere public image. Unlike many of his ministerial colleagues, he is no social gladiator, and is notably frank and direct in conversation - something which has tended to make Mr Juncker a lightning rod for criticism from the domestic political opposition.

Two years ago, when he introduced a realignment of personal income tax rates, he was singled out for attack because certain taxpayers, who had been favoured under the previous system, notably widows and divorced and sepa-

rated women, found themselves less well off.

Last December he was again in the front line, when Luxembourg decided to implement a reshuffle of VAT rates, intended to meet post-1992 EC requirements, a year ahead of schedule. But the personal criticism seems to leave him unmoved.

Now, Mr Juncker has a new challenge - to bring home to Luxembourgers the fact that the free-spending days of the 1980s are over, as the 1990 tax reform and economic slow-down plunges the government budget into deficit for the first time since 1984.

He says: "I don't have the impression that [my] analysis has been much listened to during the past few years. I don't think politicians, or Luxembourgers themselves, have really understood that the last years are over - or even members of the government."

The message may be getting through, with Mr Juncker's draft budget for 1993, which takes an axe to or defers several big public works projects, including a new motorway, a national indoor sports centre and, most notably, the controversial modern art museum designed by I.M. Pei.

It is a source of pride to Mr Juncker that Luxembourg is one of the handful of EC members which meets the Maastricht criteria for membership of the single-currency club, and he intends to remain the watchword: "Greece, Belgium and other countries show what happens when public spending gets out of hand."

He is a strong supporter of European union - and also of the EC Commission, which he views as a vital link for the smaller EC nations against the larger states controlled by their bigger neighbours.

Mr Juncker has little time for politicians who blame the Commission and its supposed meddling for domestic problems. "The Commission proposes, the Council disposes," he says, and to suggest otherwise is "mediocre thinking". No wonder Mr Delors wants him in Brussels.

Simon Gray

ABOUT a year ago, analysts were predicting that a combination of competitive, regulatory and economic were conspiring to send Luxembourg's financial industry - the main pillar of its GDP and employer of nearly 10 per cent of its workforce - into a steady decline.

Evidence certainly pointed to tougher times. In 1990, profits in the banking sector had been squeezed hard by competition and extensive provision against problem loans. The number of new banks lining up to set up shop in the Grand Duchy was falling off and new competitors, such as Dublin, threatened growth areas such as investment funds.

At the same time, Luxembourg was reckoned vulnerable to renewed efforts by its EC partners to abolish the advantages offered by statutory banking secrecy and the lack of a withholding tax on investment income for non-residents.

Such moves, it was said, would dampen the attraction of Luxembourg for private investors, just when their confidence in the stability of the Grand Duchy's banks had been rocked by the collapse of the Bank of Credit and Commerce International.

Finally, banking in Luxembourg appeared to be pricing itself out of business with a lethal combination of exorbitant salaries and inflated property costs. Attempts to rein in personnel costs threatened to shatter one of the sector's vital assets - an almost strike-free tradition.

Yet a year later, the patient stubbornly refuses to sicken. Many of the troubling indicators - such as profitability - have turned upward again. New regulatory constraints remain below the horizon. And the financial sector seems to be

achieving a leaner, more competitive profile. Quality is more important than quantity, says Mr Pierre Jaans, director of the Grand Duchy's regulatory body, the Luxembourg Monetary Institute (IML), referring to the authorities' policy of encouraging only top-drawer financial institutions to set up subsidiaries or branches in the country.

It is a policy which has gained more importance since the demise of BCCI in July 1991. Mr Jaans argues that the fraud-ridden bank was a legacy of the much more lax regulatory regime prevailing throughout Europe in the 1970s, and that such a bank would not be given a licence today. For example, he says, the IML would not now accept a bank which had a Luxembourg holding company as a leading shareholder.

Although Mr Jaans and his colleagues do not acknowledge it, observers believe a discreet "spring-cleaning" operation is under way as various institutions with connections to BCCI or not seeming to meet the new standards of transparency on which the IML insists are politely invited to take their business elsewhere.

Other banks (such as the loss-making subsidiary of Britain's TSB), have quit Luxembourg for a variety of reasons, while the ranks of Scandinavian and German regional banks have been thinned by mergers.

Even so, at the end of August, Luxembourg boasted

Predictions of banking gloom remain unfulfilled

Patient still healthy



Pierre Jaans: 'quality is more important than quantity'

192 banks, not far short of the 200-mark viewed by Mr Jaans as a rough natural limit. Recent newcomers have included several institutions from Germany and Italy, and a new contingent from South Korea.

The new arrivals have found a more hospitable economic climate. While growth in the aggregate balance sheet total of Luxembourg banks slowed to a crawl in 1991, net profits increased by nearly 25 per cent, to LFr23.8bn, practically their record level of 1989, even after extensive creation of reserves and provisions.

Just as importantly, the IML's annual report for 1991 records a slow but steady move away from reliance on interest income, where margins are being squeezed by competition, as a source of revenue.

The banks want changes in a complex and inflexible salary structure which will allow them to tailor pay more to responsibility and performance, and less to educational qualifications and seniority.

The unions, which feared this would be used simply to lower pay levels, called a one-day strike last year which

The share of interest income has declined as a proportion of total gross results from 80 to 73.5 per cent since 1987, thanks in large part to growth in commission income and profits from securities dealing.

Nor does the investment fund sector seem to have suffered unduly from the competition. During the first eight months of 1992, the number of funds established in Luxembourg grew from 899 to 929, and their aggregate net assets soared by 30 per cent to 5,200bn francs.

Meanwhile, banks have been tightening their belts. Employment in the financial sector, which grew by more than 6,000 between 1984 and 1990, has if anything declined since then. Redundancies in the course of mergers or restructuring efforts have become a regular occurrence this year, and most banks not actively shedding jobs are no longer hiring new staff.

This means a difficult environment for trade unions as they seek to wrest concessions from Luxembourg Bankers' Association (ABBL) negotiators in a long wrangle over a new employment structure for the sector.

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The unions, which feared this would be used simply to lower pay levels, called a one-day strike last year which

attracted some 11 per cent of the total workforce. Afterwards the two sides agreed to work out a compromise based on standards prevailing in rival financial centres, but this has proved elusive. Last February's deadline for agreement is long gone and banks and unions remain far apart.

While there is no immediate threat of unwelcome new EC rules which might discourage private banking, the government is slowly moving toward new rules in areas such as tax fraud. This, and stiff measures against money laundering, may erode the edges of banking secrecy, but many Luxembourg bankers say that would be no great disaster for the sector.

It is appropriate that the ABBL's president, Mr Charles Ruppert of the Kredietbank Luxembourg, began his career as a teacher. Education is now the watchword within the industry, with the association leading an effort designed to ensure it is expertise and quality of service which makes Luxembourg stand out from its rivals.

The Luxembourg Institute for Training in Banking was established by the ABBL in 1990 to co-ordinate and expand its training activities in areas ranging from apprenticeship-style courses to language classes (and work experience programmes for bankers from eastern Europe).

The Luxembourg Banking Academy was created earlier this year, with help from institutions in Britain, France and Germany, to offer courses enabling specialists to become all-round bankers. If the initiative is successful, the programme may be transformed into a fully-fledged MBA.

Simon Gray

Tripartite approach worked

Continued from Page 1

Mr Lucien Jung, managing director of Fedil, the Luxembourg industry federation, believes that a target level of 30 to 35 per cent would be healthier for the economy. Individual investments by companies in the banking and financial services tend to be higher than those in manufacturing industry, making them more transient and less dependable.

"If they [the banks] can earn

10 per cent more in London or Zurich, they leave. But if an industrial company makes an investment of LFr1bn (£20m), it's bound not to leave so quickly," he argues.

The banking community counters this argument by pointing to the recent heavy investment by foreign banks in new, purpose-built premises and their new-found efforts to step up the training of staff.

The ultimately successful move away from an over-reliance on steel was achieved by the use of what has come to be known as the "Luxembourg model". Under this tripartite approach between industry, government and the unions, Arbed promised not to push through forced redundancies, the unions pledged not to

strike, and the government agreed to help promote industrial restructuring.

Another part of the model, still at the country's disposal, is the use of "short-time" working schedules to bridge the peaks and troughs in demand at otherwise healthy companies.

The latest company to introduce short-time is Villoroy & Boch, the German-based manufacturer of porcelain, tiles and sanitary fittings, which employs 1,400 people at a tableware factory in Luxembourg.

Some 1,300 of these employees were put on short-time schedules when the factory was closed for two weeks in September and October. Similar measures are expected later in November and December, to

help the factory weather a drop in demand on recession-plagued foreign markets. Government funds, raised by a "solidarity levy" on taxpayers, ensure that employees receive up to 80 per cent of their normal full-time salary while production is shut down.

Short-time work schedules are one of the reasons why Luxembourg has such a low rate of unemployment. Only 2,800 people, or about 1.7 per cent of the working population, are registered as out of work, putting the country close to achieving the near-impossible feat of full employment.

But Mr Schmit, of the economics ministry, points out that national statistics are perhaps inappropriate for gauging Luxembourg's labour market. Purely national statistics do not include the 44,000 cross-border commuters who stream into the Grand Duchy every

working day from Germany, France and Belgium, filling jobs for which there are simply no more Luxembourgers available.

This heavy dependence on non-Luxembourg labour - including foreigners living within Luxembourg and those living just outside - puts the country in a unique position within the Twelve. Forty-five per cent of jobs in Luxembourg are held by non-nationals, mainly immigrants from Italy and Portugal and their children.

For the time being, Luxembourg is finding enough foreign workers to keep its factories and offices running. But in the longer term, its reliance on crucial non-national labour is a worry for corporate recruiters and government policy-makers.

Ronald van de Krol



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CONTRACTS

Bulgarian £24m orders won by Mowlem railways project

An order for a railway restructuring study for Bulgarian State Railways valued at £600,000 (248,000) has been won by KENNEDY & DONKIN TRANSPORTATION in association with CIB CONSULT (IRELAND) and KPMG MANAGEMENT CONSULTANT against international competition.

The contract, funded by the EBRD, relates to a 4,500 track kilometres railway system.

The aim of the study is to determine how to move BDZ from an inward-looking state-supported monopoly in a regulated economy to a market-driven, commercially-oriented enterprise operating in a radically changing economy.

Kennedy & Donkin Transportation will lead a team to assess the manner in which the Bulgarian economy will change in the years ahead, and establish the resulting future demand for all railway services; identify the organisation, systems, management style and activities that BDZ will need to enable it to provide a quality of service acceptable to its customers while at the same time producing adequate long-term financial returns; help to create new policies, guidelines and statutory and institutional frameworks to give BDZ the freedom to manage its business commercially and effectively; and design and agree a modernisation programme that will enable Bulgarian Railways to compete within the integrated European railway network of the future. Completion of the project is scheduled for September 1993.

Mining equipment

INGERSOLL-RAND has been awarded a US\$6m (£3.84m) order for DM-H blasthole drills for Codelco's Chuquibambilla mine in Chile.

In Ecuador, Ingersoll-Rand has won an order for a second LM-401 hydraulic blasthole rig for a reservoir enlargement project in Guayaquil. The order was won by the Ecuador distributor, Ecuaire.

The DM-H blasthole drill is part of the DM range of large blasthole drills used in quarries and opencast mines.

BARCLAY MOWLEM, the Australian division of John Mowlem Construction, has won contracts in Queensland, New South Wales and the Northern Territory together worth nearly £24m.

Two are road contracts. The largest, worth £4.27m, is for a 9km twin lane dual carriage-way deviation of the Hume Highway south of Goulburn in New South Wales, to bypass the Cullarín mountain range. The project involves laying 9km concrete road to a thickness of 355mm, linemarking, guard rail fencing and drainage.

The client is The Roads and Traffic Authority of New South Wales. Work has started and completion is scheduled for February 1993.

The second project, also for The Roads and Traffic Authority of New South Wales, is valued at £1.69m and is for twin road bridges over Smithfield Road and Polding Street roundabout in the Smithfield district of Sydney. Work has started on site for completion in March 1993.

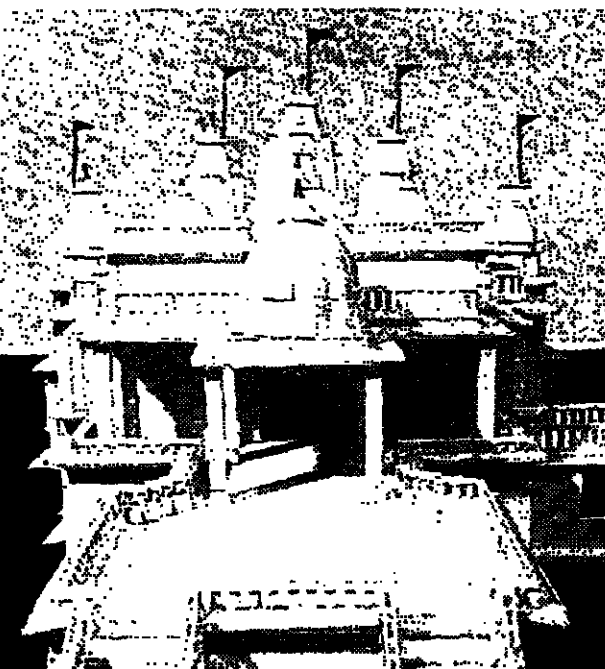
In the educational field work includes three contracts at Queensland University total-

ling £7.2m, including the design and construction of stage 3 of the anatomy and therapy building, three accommodation buildings at Emmanuel residential college and the three-storey CSIRO plant growth building.

In New South Wales Barclay Mowlem is building stage 3 of the Lidcombe TAFE College (£2.1m) and town houses in St Ives (£2.9m).

In the Northern Territory, the company is constructing air defence facilities worth \$4.65m for the Department of Defence at Tindal.

London temple plan



SERREKMEY COX, part of the John Lelliott Group, has been awarded a \$650,000 contract to quarry and supply Bulgarian stone for a Hindu temple (pictured) to be built in London.

Over the next two years the company will oversee the quarrying of 6,500 tonnes of the best quality stone from Vratsa, Bulgaria.

Involving 360 lorry loads, the

stone will be transported to Varna on the Black Sea and shipped via the Suez canal to Bombay.

Indian craftsmen will then carve the stone before it is shipped to England for the construction of the temple in Brentfield Road, Neasden, under the auspices of the Swaminarayan Hindu Mission, part of a worldwide movement.

School equipment scheme

TECQUIPMENT, Nottingham, has signed a £10m agreement to supply equipment and services for up to 150 technical and craft schools in Ghana.

Funding is being sought

under the British government's aid and trade provision, comprising an Overseas Development Administration grant of £3.5m, combined with a buyer credit facility of £6.5m.

Transport study in Pakistan

MOTT MACDONALD has been commissioned by the Lahore Development Authority in Pakistan to undertake the feasibility study and design for a ring road about 53km long around Lahore. This is being carried out by Mott MacDonald in association with MMP Pakistan (Private) and Engineering Consultants of Karachi.

The project is split into three phases - review and assessment of current and future traffic demand for the whole ring road; route selection, alignment, engineering and economic appraisal for the priority south western quadrant where traffic congestion is particularly acute; and detailed design of the south western section plus preparation of contract documents.

The Lahore Development Authority has also asked Mott MacDonald to carry out an environmental impact assessment of the whole ring road and to train its staff in traffic assessment and the development of traffic models.

Lahore is a rapidly expanding city with a current population of four million. As growth is physically constrained to the north and west by the flood protection bunds of the Ravi river, major expansion is planned south of the existing city.

The Lahore ring road project is funded by the International Bank for Reconstruction and Development under an IDA credit. Construction of the south western priority section is likely to start in 1994.

PEOPLE

Steve Bullock elected to chair ALA

Steve Bullock, leader of Lewisham Council, has been elected to succeed Margaret Hodge as chair of the Labour-dominated Association of London Authorities.

Bullock, 38, hit stardom as the friendly face of local government in the BBC's serial "Town Hall" broadcast earlier this year. The Council made a less than glamorous show - for all its "we-got-to-the-Citizen's-Charter first" rhetoric. But Bullock's no-nonsense bluntness scored high for all his penchant for local ties.

Leader of Lewisham for four years, Bullock has spent most

of his life in local government. He worked for the Greater London Council in the 1970s, was elected to Lewisham in the early 1980s, and was deputy leader by 1985.

Bullock, who was married last week in New York, has a hard act to follow. Margaret Hodge consigned the loony left to the dustbin and achieved the unthinkable - making the case for an elected Greater London authority respectable after Ken Livingstone.

"My priority will be to ensure that London's voice is heard loud and clear in centres of power," Bullock said yesterday.

"The absence of a strategic authority for the capital has left the capital falling behind in Europe and we need to restore it to world-class status again."

If he is serious about the voice, his first job will be to get all London's Labour and Tory councils into one association: such was the bitterness of the 1980s that the capital's Tory councils have their own.

Alas, he might find it easier to resurrect the GLC - or to follow Margaret Hodge into the lucrative private sector, advising consultants on local government.



Bullock: left-leaning

Leighfield retiring from AT&T Istel

John Leighfield is retiring as executive chairman of AT&T Istel, provoking a game of musical bucket-seats at the US-owned company which was once the computing arm of British Leyland.

The new man at the top will be Peter Teague (right), 38, currently the company's director of finance and corporate services.

The present group chief executive, Chris Chiles, 46, is moving to the US as marketing vice-president in AT&T's Business Communications Services Business Unit, where he will have special responsibilities for Europe.

John Leighfield, still only 55, is both well known and highly



respected in Europe's computing services community. Formerly with Ford and Plessey, he joined Leyland in 1972 to

pioneer the establishment of a separate IT services company, BI Systems.

He played a leading role in the negotiations which led to a majority stake in the company being sold to its management in 1987, and its subsequent sale to AT&T in 1989.

He will remain a non-executive director of AT&T Istel, thus leaving more time for his hobby of cartography and his role as a professor at Warwick University.

Peter Teague, a mathematician and chartered accountant, was formerly a financial adviser with Arthur Young where he was involved in Istel's management buy-out. He joined the company in 1987.

Lay members for Revenue

The Inland Revenue has announced the names of the two private sector members of its new management board, which was launched in April this year as part of a series of wider reforms.

Lady Wilcox, chairman of the National Consumer Council, and Stella Masters, a partner in KPMG Peat Marwick, the accountancy firm, are joining as non-executive members.

Masters, a chartered accountant, is no stranger to the challenges facing large organisations undergoing change. She was seconded from KPMG to the National Health Service as director of finance to the management executive and since her return,

has helped co-ordinate the firm's internal reorganisation, called 20/20 vision.

The chancellor of the exchequer announced in March that "a number of members from the private sector" would be added to a new management board to provide expertise, experience and advice to the department.

The existing seats on the management board are held by the five members of the board of the Inland Revenue, and a further six senior revenue officials.

The Revenue expects to appoint a number of other private sector members over the next few months.

Pannell Kerr Forster Worldwide, the international accountancy firm network, has restructured its top management following the unexpected death of Claude

Brown, the former executive chairman.

Frank Hughes, currently chairman of the firm's Americas region, will become temporary international chairman for a second term. He will be replaced by Tim Richmond, managing partner of the UK firm, on July 1 next year.

Eric Tait, currently director of European operations, becomes international executive director and will report to the chairman.

Richmond - who becomes vice chairman until July 1 - will act in a non-executive role and continue as managing partner in the UK.

Guillermo Williams of Salles Salas y Cia, the Mexican member firm, will chair the Americas region, and Ton Wallast of Wallast & Stam, in the Netherlands, chair for Europe.

Non-executives

It really is the end of an era for Quicks, the once family-owned group of car dealerships from which Mancunians have been buying their Ford since time immemorial - or at least from soon after Ford first began assembling cars at nearby Trafford Park in the early 1900s.

For the first time there will not be a Quick in the chair when the current incumbent, Norman Quick, retires at the end of the year having reached the age of 70.

In line with the current chairman's long-held objective of bringing in outside blood to strengthen the board, he will be succeeded by Michael Moore. The versatile Moore is chairman of Tomkins and The Bank of Edinburgh Group and a director of Linx Printing Technologies, as well as being chairman of the NSPC.

Moore will serve as a non-executive director until he takes up the chairmanship on January 1, when Norman Quick will also become Quicks' first life president.

■ Ian Hargreaves at CLAREMOUNT UNDERWRITING AGENCY.

■ William Croft and Heinz Moonen at MULTITONE ELECTRONICS' German subsidiary, after they retire as group technical director and md respectively at the end of December.

■ Richard Weyill, joint md of Causeway Investment Management, at VARDON.

■ Martin Rafferty, chairman of United Drug, ReadyMix, Ulster Investment Bank and the Irish Industrial Development Authority, at GREENCORE.



Hans van Oosterom, Executive Vice President Strategic Planning Akzo

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CREATING THE RIGHT CHEMISTRY



Innovation — but only for the minority

Ten years on, Christopher Dunkley assesses the achievement of Channel 4

Channel 4 is 10 years old this week and the plaudits are pouring in from the media. "It undoubtedly" (a give-away word meaning, I suspect this is an overstatement) "changed the face of broadcasting", according to independent producer Sophie Balhetch who made *The Manageress* and *The Commie Lamm* for C4. Can you imagine any other British channel showing such drama? You can't. All of them? Well, yes, perhaps so.

Channel 4 has admirably fulfilled every hope we had for it," enthuses Anthony Smith, once editor of the BBC's *M4* and more responsible than anyone for shaping Channel 4's "publisher" concept. Smith praises C4 for "allowing all sorts of communities to have a greater stake in television... creating a following for things like American football". Few of us in the TV4 Campaign in the 1970s would have guessed that one of the aims of our co-sponsor was to bring American football to British screens, but you live and learn.

Independent producer Michael Darlow maintains that the channel has done quite well: "Things have been freed up and new people have got in". Darlow, of course, worked for the BBC and ITV before working for C4. In the view of John Wyster, another independent, C4 "has immeasurably" bit like undoubtedly — "enriched British broadcasting". Mr Channel 4 himself, Jeremy Isaacs, who was Chief Executive for the first eight years, claims that "Channel 4 made the case for hour-long news". Of his successor, Michael Grade, he says "I give him high marks for the position the channel is in. I wouldn't want to be doing his job now. I've done what I could there and I'm now doing what I can elsewhere. And I'm learning to garden", a reference, presumably, to Covent Garden, the opera house of which Mr Isaacs is now General Director. And Grade himself? What does he think about C4? "Why should we change when things are going so well for us? We have a winning formula".

Since convention requires that for major anniversaries, as for funerals, we set aside our true feelings and utter only soft soap and bouquets, it might be argued that these panegyrics, all culled from recent broadcast newspapers, are merely showpiece civilities for public

consumption. Yet anybody who has followed the mediocrity's pronouncements about C4 over the years must doubt this. There has been widespread support for the claims made by C4's own personnel that the channel triumphantly fulfils its famous remit to encourage innovation and experiment and cater for tastes and interests not generally catered for by other channels, and that it wins about 10 per cent of the national audience. Both claims are true, but the implication that C4 wins its 10 per cent share by screening experimental or minority programmes is eye-wash.

Anyone who actually likes television



Treasure Hunt with Annela Rice: ratings orientated

and watches lots of it knows this. Channel 4 is where we turn for the best contemporary American comedies (*Cher's The Golden Girls*), for serious news if we want it early in the evening, and for vintage series (*TV Heaven, The Avengers, The Twilight Zone*). The current BARB ratings show that The Top 20 programmes on C4 comprise five American comedies, five editions of a game show, three episodes of soap opera, three British sitcoms, one old American drama series, one repeat from a popular TV drama series, one old movie, and one documentary (*Animal Squad, Undercover*) which achieves an

unexpectedly high place because it has a repeat within the week.

Those, of course, are not the programmes which the mediocrity are talking about when they praise C4; there is not one which would look out of place on other channels. You do begin to wonder whether these people really watch television like ordinary viewers, or whether their ideas about C4 are formed more by the occasional whizz through a cassette and a lot of industry talk about the latest independent contacts. In the bar of the Groucho Club it is the programme description that really counts, not the fact that it will be transmitted to an uncaring world at lunchtime on a Saturday. It is worth remembering that one of Jeremy Isaacs' pet phrases when things became fraught at C4 was "Come on, it's only television", which brought mock-wry smiles from the book-bred, cinema-orientated elite.

Consider this evening's offerings from Channel 4: *The Magic Roundabout* A French series brought to Britain 27 years ago by the BBC (repeat); *Treasure Hunt*: Copy of a French game show featuring frequent rear views of Annela Rice in tight trousers (repeat); *Channel 4 News*: 50-minute early evening news copied (like every British TV news innovation for 30 years) from the US; sometimes nearly as good as BBC's *Newsnight*. Comment: A real innovation: five minutes of personal opinion straight to camera. Brookside: Soap opera with an audience smaller than that for BBC1's much derided *Eldorado*. Anton Mosimann — Naturally: Old fashioned kitchen-bound cookery programme (repeat). Dispatches: Good current affairs series much like those on other channels.

Short And Curious: Worthwhile series of 10-minute films by new directors. The Golden Girls: American sitcom. Packing Them In: Embarrassingly poor variety show not saved by attempts to disguise an ancient format with backstage frolics. The Prisoner: Over-rated ITV "cult" series made by Low Grade in 1967 (repeat). The Steve Allen Show: Cheap black and white 1950s American variety show. The Best Of The Worst: Clips from American shows. Aah! Hindi film, starting at 1.10 in the morning.

Innovative? Experimental? Catering for minorities? Here and there, perhaps,

in the nooks and crannies, for five or ten minutes in a six hour stretch. There is, however, one thing that should be said in defence of Michael Grade. The repeated suggestion that he is taking C4 down market and that this is shown by the large number of American imports merely proves again how little the mediocrity actually watch. It was under Isaacs that C4 pushed its American content up to a level above that of any channel in Europe; more than 30 per cent. My impression is that there are now rather fewer American programmes in prime time, though the over all proportion may remain much the same.

So is there nothing good to be said about Channel 4? Several things. It had enormous influence in creating a British independent programme sector which now numbers 700 to 800 companies; historically this may prove to be C4's most significant achievement. It showed that you can put opinion straight on the screen. While others were looking left, it championed freedom of expression (Isaacs and Grade both showed personal courage and deserve our gratitude). Above all its occasionally inspiring, occasionally irritating policies have been powerfully influential in the development of BBC3 into the most impressive channel for the demanding viewer in this country and perhaps the world.

No doubt this will be considered not merely a back-handed compliment but an insult, yet the point is a perfectly serious one. For 35 years Britain's broadcasting "duopoly" has proved a remarkably benevolent structure with the commercial side frightening and inspiring the public service side to greater efforts at popularity, and the public service side claiming and challenging the commercial side to greater efforts at prestige. The highly beneficial effects of C4 on BBC3 may be the final chapter in that story. Come January 1993, with C4 selling its own advertising and the new ITV franchises in force, British commercial television could disappear into the market enterprise vortex just as the BBC turns its back to begin the true, to the Himalayan uplands of quality and worth. The old light in the centre for popularity with quality may well be abandoned, to the detriment of good popular television.



Paul Eddington and Harold Pinter

Harold Pinter returns to the British stage after 24 years showing he can act as well as write. He takes the lead alongside Paul Eddington in his fine, perplexing *No Man's Land* (1975) at the Almeida Theatre and his acting teaches how to watch Pinter, cast off bafflement and put on enlightenment amid silences and the sense of important happenings take each scene separately and trust your instincts.

No Man's Land follows *Betrayal*, *Mountain Language*, and *Party Time* into the Almeida since 1990. There is drama which builds models of the world, telling you what to think; and then there is drama like this, which leaves everything to you. Pinter excels in the latter.

First and Spooner meet in a Hampstead pub, and return to Pinter's house. First drinks, his attention strays; he takes Spooner for a stranger, then an old friend. Foster and Briggs make up Pinter's household. The occasionally running it or run by it. The play unfolds in exchanges between these four. A scene shifts with a gesture

Theatre No Man's Land

or silence; by turns one character appears in charge, then cedes to another. Given that *No Man's Land* is about not knowing what is going on, and the sense of dislocation that comes from that, the best hedge against confusion is to trust your reactions.

Parts of *No Man's Land* are extremely funny, the matter without the form of farce: mistaken identity, confusion, repetition. Pinter, like Oscar Wilde, uses the tension between the logical and the emotional import of the words.

At the end of *No Man's Land*, First says: "Let us change the subject. For the last time. What have I said?" Foster replies: "You said you're changing the subject for the last time." "But what does that mean?" — "It means you'll never change the subject again." Pinter merely invites

us to recreate the world in which this exchange is accurate: straight from A.J. Ayer to Z.

Bob Crowley's black interior helps David Leveaux's direction keep the action gloomy; the actors move deliberately between the set's totems — drinks trolley, door, light, chair. The sense of significance hangs everywhere, sporadically crossed by moments of despair.

The evening is made by the acting. Eddington plays Spooner superbly. He delivers faded truths with a tilt of the head, tweedy awkwardness with a tug at the sleeve, Champagne confidence with a hand in the pocket. Opposite him, Pinter's fine First, also stuck in no man's land, is plain and desperate, taking each sentence as it comes. First says: "You find me in the last lay of a race... I had long forgotten to run." Spooner quips: "A metaphor. Things are

Andrew St George

Almeida Theatre (071 359 4404) until December 19

Sinfonietta celebrates

With its penchant for celebrating anniversaries, the London Sinfonietta is spending this season fitting its own twenty-fifth. Self-congratulatory, of course, but pardonable: most of the music in this series was, indeed, commissioned or co-commissioned by the Sinfonietta and its fraternal Voices, and on average the quality has been bracingly high.

Saturday's programme at the Queen Elizabeth Hall started with Oliver Knussen conducting his own *Coursing* (1979), potent and thrilling as ever — first a wild union tooting by everybody, gradually overlaid and underpinned by slower strands which at last make a towering wall of sound. All that in just six minutes!

The evening concluded with Elliott Carter's 1981 song-cycle *In Sleep*, in *Thunder*, which even in a superlative performance like this (the intrepid soloist was Jon Garrison) strikes me as one of his toughest

est pieces to digest. Sir Robert Lovell's series are set to angular, high-flying vocal lines, no less vehement than the ensemble with its minatory trumpet. The idea must be to make the dramatic implications of the verse explicit — dark, troubled, bitter, as word-setting, however, it seems a long way off Lovell's quietest style.

In between we had Robin Holloway's gentle *Evening with Angels* (1972), and a characteristic idyll by Takemitsu. His 1986 *Tree Line* evokes all the qualities which have kept him laden with commissions from people wanting: listener-friendly "new" music: tranquil and pretty, with its delicate sound-palette, in an idiom just a step beyond early Impressionist Roussel or Florent Schmitt.

A new piece by the émigré Dmitri Smirnov, *The River of Life* sounded equally sincere and out-of-time. Here, though, the harking-back was to Strydom: not to his exacerbated harmony, but to his tremulous ecstasies. At the violin developed, a soulful trumpet sealed the resemblance. Strydom himself, however, might have stopped short of putting harp, celesta and glockenspiel in unison to make his celestial effects.

David Murray

Music Theatre/Andrew Clements

Meredith Monk

In the broad church of American minimalism, Meredith Monk is a distinctive and refreshingly unpretentious voice. While the music of many of her contemporaries has become grandiose and self-regarding, Monk has patiently and quietly cultivated her own furrow, crossing and recrossing the boundaries between music, dance and theatre, developing her pieces out of the simplest vocal ideas and the most painstaking preparation.

In Houston last year Monk unveiled her most ambitious piece to date — the three-act opera *Atlas*, which West Lothian welcomed warmly on this page. The performers brought together for that production are now touring Britain as the Meredith Monk Vocal Ensemble, offering an hour-long concert version of *Atlas* with the instrumental scoring boiled down to a pair of electronic keyboards and an assortment of arcane percussion.

A concert performance of such a work, however witty and musically expert, is necessarily a second best. In Monk's world the symbiosis between sound and gesture is a totally intimate one, each depends on the other for meaning and con-

text. A sequence of non-verbal numbers, beautifully patterned, attractively homespun, cannot sustain the dramatic weight it requires. The elegant vocalise (not unlike early Laurie Anderson, without all the electronic hardware) can be enjoyed in itself, but despite Monk's own introductions to the excerpts from each act, the sense of these numbers from *Atlas* building into something much more substantial was hard to imagine.

The programme begins with a sample of a theatre piece from 1990, *Facing North*, Monk's celebration of the Canadian Arctic. It is a straightforward two-hander, and the four extracts given here by Monk herself and Robert Menzies suggested a delicate warm-hearted study, accumulating its patterns and tags from Inuit melodies and splicing them with a modicum of gesture; the folksy side of Monk is never far from the surface, yet it rarely cloy or becomes too cosy.

Queen Elizabeth Hall; part of the Contemporary Music Network, touring this week to Leicester, Manchester, Sheffield and Nottingham

One tune that is not often heard in the nation's concert-halls is the theme of market forces. Karla in the year the BBC apparently decided that audiences for its certis at the Royal Festival Hall had dropped so low that something had to be done. The answer was to tempt people in with a new pricing policy, which sells all the seats unserved at 50 or 54.

The hall was still only about half full on Saturday, but at least the audience looked happy about getting the best seats. Given the strange clash of styles on the programme, the numbers actually make up for the lack of quality and work. The BBC Symphony Orchestra offered a nebulous piece by the Russian composer Korndorf and it has now followed that with a mirage of a symphony by a counterpart of his from Georgia, Giya Kancheli.

A haze of nothing in particular hangs in the air. Kancheli (born 1935) puts much

Mixed styles from the BBCSO

emphasis on achieving a vaguely religious atmosphere and little on musical argument. The main aim of his Symphony No. 4, "In Memoria di Michelangelo", here receiving its first UK performance, is to enter a cathedral-like structure of grand and spacious emptiness.

There are a few noisy outbursts, which come from nowhere. Towards the middle harp and celesta tinkle out what sounds like a nursery rhyme, while a pair of solo violas later burble a rustic refrain. And that was all. Writing about the symphony is like trying to describe one of those works of art, which is no more than an empty canvas with a couple of doodles in the middle and random splashes of colour around the edge.

Glorious Ninth

Nonetheless, a really distinguished "Choral", not long enough to fill an evening, but what to play before it is always a puzzle. At the Barbican on Sunday, the conductor Libor Pešek opted for something completely different: his countryman Bohuslav Martinů's late, almost unknown Rhapsody-Concerto for viola. The soloist was one of the London Symphony's two viola-principals, Paul Silverthorne. This was one of those occasions when an unfamiliar work bears the unarguable stamp of devoted preparation. The concerto has just two movements, each of them lyrically ruminative at unhurried tempo. The homely, wistful air of the first gives way in the second, however, to a darker elegiac tone and a sharp sense of loss. This performance conveyed all that with penetration and dignity.

Nothing was forced, least of all the orchestra's tone. The peaks of the score were reached by calmly assured ascents. All the instrumental voices were encour-

The Viola Concerto by William Walton may not have the strongest personality of the composer's major works, but it seemed a more vivid portrait than ever before in this company. The mixture of brooding melancholy and unashamed romantic open-heartedness is very much Walton's own and the viola soloist, Tabea Zimmermann, summoned all the dark and sultry colours for which the music calls.

Then Beethoven's Seventh Symphony banished any lingering vagueness. Alexander Lazarev holds a non-sense view of the symphony in which each movement becomes a distinct entity, leading from a lyrical opening movement to a excitingly ferocious finale. The BBC Symphony Orchestra had been carefully rehearsed to the extent that the slower music lacked spontaneity. But at the end audience cheered: it had his money's worth.

Richard Fairman

David Murray

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BARCELONA

OPERA

A new production of Donizetti's *Anna Bolena* opens at the Liceu on Mon with Edita Gruberova in the title role. Richard Borynko conducts a staging by Giancarlo del Monaco (further performances on Nov 13, 17, 21, 25, 29). Next Tues: German Lieder recital with Hans-Peter Blochwitz. Thomas Mohr and Gabriele Rossmann, accompanied by Cord Garben. Nov 14: Rockwell Blake sings opera arias. Nov 16: Karita Mattila song recital (412 3532)

CONCERTS

Sat and Sun at Palau de la Musica: Victoria de los Angeles and Alicia de Larrocha take part in a concert by Barcelona City Orchestra in honour of 80th birthday of Catalan composer Xavier Montsalvatge. Nov 14, 15: James Loughran conducts Vaughan Williams. Nov 21, 22: Alexander Gibson conducts Sibelius (288 1000)

Information and booking for cultural events available through

Caixa de Catalunya from 08.00 to 14.00 (310 1212)

COLOGNE

CONCERTS

Oakka Philharmonic Orchestra visits the Philharmonie on Sat with a programme of Takemitsu, Rakhmaninov and Brahms. Sun afternoon: Mischa Maisky plays Haydn's D major Cello Concerto with Stuttgart Chamber Orchestra. Mon: Milva. Tues: Mikis Theodorakis sings his own music. Next Wed: Svetlanov conducts Rakhmaninov and Tchaikovsky. Next Fri and Sat: Vladimir Fedoseyev conducts Cologne Radio Symphony Orchestra. Nov 15, 16, 17: Inbel conducts Ravel and Berlioz. Nov 24: James Galway. Nov 28: Abbado conducts the Berlin Philharmonic (2801)

OPERA

The main event this week at the Opernhaus is the premiere on Sun of a new production of Henze's *Der Prinz von Homburg*, conducted by Lothar Zagrosek and staged by Marco Arturo Marelli. The cast includes Helga Dernesch and Eirian Davies (also Nov 11, 14, 18, 24, 27). Kathleen Kuhlmann sings the title role in Carmen tonight, Sat, next Tues and Fri. Tomorrow: Margaret Price song recital. Fri: ballet by Jochen Ulrich (221 8400)

COPENHAGEN

Royal Theatre 20:00 Four-part Balanchine evening, new production staged by Patricia Neary (also Fri and next Wed).

Tomorrow: three Balanchine ballets. Tues and next Sat: Der Rosenkavalier. Later this month performances of Nielsen's *Maskeade*, Cernovodsk's ballet *Caroline Mathilde* (3314 1002)

FRANKFURT

CONCERTS

Theatre Work Holland brings the South African musical *Sikulu* to the Jahrhunderthalle Hoeset on Sat (2801 240). At the Alte Oper, Yuri Ahronovitch conducts the Frankfurt Opera Orchestra in works by Danzi, Tanaka, Janacek and Rimsky-Korsakov on Sun morning and Mon evening. Sun evening: The Last Days of St Petersburg (1927), a silent film with live orchestral accompaniment. Tues and Wed: Milva. Next Thurs: BB King. Nov 14: James Galway. Nov 17: Nash Ensemble. Nov 19, 20: Pinchas Zukerman. Nov 20 in Mozart Saal: Dmitri Hvorostovsky. Nov 21: Svetlanov conducts Rakhmaninov. Nov 22: Midori (1340 400)

OPERA/DANCE

Axel Corti's Vichy-era production of *La traviata* is revived at the Opernhaus on Fri (also Nov 5, 21, 28). Georges Delnon's new production of *Die Fledermaus* can be seen on Sat (also Nov 12, 18, 28). William Forsythe's choreography *The Loss of Small Detail* can be seen on Nov 14, 16, 20, 23 and 30 (238061)

THEATRE

Djuna Barnes' play *Antiphon* receives its German premiere tonight at the Schauspielhaus.

The repertoire also includes John Hopkins' *Lost Time*. Schnitzler's *Undiscovered Country* and Shakespeare's *Merchant of Venice* (2123 7444)

GOTHENBURG

Konserthuset 19.30 Jun'ichi Hirokami conducts Gothenburg Symphony Orchestra in Rodrigo's *Concierto Pastoral* (guitar soloist Patrick Gallois) and symphonies by Tchaikovsky and Beethoven. Next Thurs and Fri: Moscow Chamber Orchestra (167000)

HAMBURG

Staatsoper Tonight and Sun: Cossan tutte with Hillevi Martinpelto, Jeanne Pilon and Deon van der Walt. Tomorrow and next Sun: Gerd Albrecht conducts Günter Krämer's new production of *Die Walküre*, with Gabriela Schnaut, Hartmut Welker and Kurt Moll. Fri, Sat, Mon, next Wed: Neumeier production of *Nutcracker*. Next Tues and Fri: Don Pasquale. Next Thurs: Don Carlo. Bob Wilson's production of *Parafirst* is revived on Nov 20 and 22 (351721)

Musiktheater Roger Norrington conducts the Hamburg State Philharmonic in Beethoven's *Second Symphony* and Sibelius' *First on Sun morning and Mon evening* (351721)

Deutsches Schauspielhaus Tonight's performance is *This Story of Yours* (known) by John Hopkins, best known for his creation of BBC-TV's *Z-Cars*. Tomorrow: *Death of a Salesman*. Fri: *Heartbreak House*. The

repertoire also includes plays by Maxim Gorki and Thomas Bernhard (248713)

LEIPZIG

Opernhaus Yehudi Menuhin conducts *Die Zauberflöte* tonight, Sat and next Tues. Tomorrow and Sun: choreographies by Uwe Scholz. Fri: Tosca. Nov 22: new production of Werther (7168 273) Gewandhaus Gilbert Varga conducts the MDR Symphony Orchestra in works by Enescu, Bartók and Britten this evening at 18.00, followed by a musica nova concert directed by Hans Zender at 20.00. Sat: Kurt Masur conducts a concert of opera arias, with soloists Kathleen Cassello and Keith Olsen. Sun: Chicago Sinfonietta. Next Tues: Justus Franz conducts Brahms' *German Requiem*, with Bryn Terfel baritone soloist. Next Wed: Pinchas Zukerman. Next Thurs: Lionel Hampton (7132 280)

NEW YORK

THEATRE

● June: the 1959 Marc Blitzstein/Joseph Stein musical based on Sean O'Casey's *Junio* and the Paycock (Vineyard, 108 East 15th St, 353 3874)

● Brother Trunks: The Ridiculous Theatrical Company presents a new comedy by Georg Osterman. Tili Nov 15 (Charles Ludlum Theatre, 1 Sheridan Square, 861 2271)

● The Sisters Rosenzweig: Wendy Wasserstein's new play (Mitzi E Newhouse, Lincoln Center, 239 6200)

● The Best of Forbidden Broadway: tenth anniversary edition of Gerard Alessandrini's ever-fluctuating musical revue (Theatre East, 211 East 60th St, 838 9090)

● Faisstos: two of William Finn's one-act musicals (Golden, 252 West 45th St, 239 6200)

● Five Guys Named Moe: the guys are black dancers and singers who perform the songs of the late Louis Jordan (Eugene O'Neill, 230 West 49th St, 239 6200)

UTRECHT

Vredenburg 20.15 Daniel Quartet with pianist Rian de Waal. Fri: Vassili Sinalsky conducts Netherlands Radio Symphony Orchestra in Brahms' *First Piano Concerto* (Ronald Brautigam) and Tchaikovsky's *First* Symphony. Sat: Jeffrey Tate conducts Rotterdam Philharmonic Orchestra in Beethoven's *Fifth Piano Concerto* (Bruno Leonardo Gelber) and Bruckner's *Fourth* Symphony. Sun afternoon, next Tues and Wed: Frans Brüggen conducts Orchestra of the 18th Century and Gulbenkian Chorus in Beethoven's Ninth Symphony. Sun evening: Ken-Ichiro Kobayashi conducts Netherlands Philharmonic Orchestra in works by Smetana, Tchaikovsky and Musorgsky. Mon: Hans Vonk conducts Utrecht Conservatory Orchestra in works by Brahms, Saint-Saëns and Beethoven. Nov 18: Krystian Zimerman piano recital. Nov 29: Svetlanov conducts Russian State Symphony Orchestra (314544)

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Sky News 2330-2100, 2230-2200 FT Business Weekly

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CNN 0600-0630, 1800-1830 World Business This Week — a joint FT/CNN production

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Sky News 1130-1200, 1730-1800 FT Media Europe

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Wednesday November 4 1992

Japan banks on recovery

JAPAN'S DEEPENING political and economic difficulties make a worrying spectacle. The Japanese government has the room to act, both to prevent a recession and to ensure that its troubled banking sector is purged and ready for recovery. But the combination of bureaucratic myopia and political gridlock may still produce too little action, too late.

Japan faces two distinct recessionary threats. The slowdown in the corporate sector, and the associated fall in profits, investment, output and prospects for employment, make headline news. But it is the collapse of the real estate sector and the resultant troubles in the banking industry which pose the greater threat to economic growth in the medium term, both for Japan and the world.

The Japanese industry is fundamentally strong, but burdened by excess capacity at a time when both international and domestic demand is weak. Inventories are too high. The investment growth of the late 1980s was probably too rapid. Many observers now expect private investment to remain depressed for a year or more. Fortunately, Japan's life-time employment system and the recently agreed ¥10,700bn fiscal package of public investments should together ensure that Japan avoids an outright recession.

Yet it is the threat of an anaemic recovery, not recession, that should disturb the sleep of Ministry of Finance officials. Japanese monetary growth may currently be sluggish because the demand for new loans is depressed. But the pace of recovery, both in Japan and elsewhere, may subsequently be constrained by the ability and willingness of Japan's banks to lend for new ventures.

Bad debts

The omens are poor. Bad debts in the US banking industry have hindered the pace of the US recovery, despite the willingness of the US Federal Reserve to ease monetary policy aggressively in order to steepen the yield curve and boost bank profitability.

The scale of the likely bad debts held by Japan's less profitable banking sector is only slowly becoming apparent. The Ministry of Finance reported last week that

the non-performing loans of the leading 21 Japanese banks rose by 54 per cent, to ¥12,300bn, in the six months to the end of September, about a third of the total capital of these banks. Other estimates, based on a less conservative definition of bad loans and including regional banks, suggest a figure for bad debts that is four times as great. In fact, the low level of transactions in the land market and the artificially inflated level of recorded land prices make it impossible to know quite how large the damage to bank balance sheets will turn out to be.

Public support

Yet neither the Bank of Japan or the Ministry of Finance is willing, at least publicly, to recognise the threat to recovery that these bad debts present. The Bank of Japan has left the discount rate unchanged since July, while the gap between short and long-term interest rates is half that in the US. The Ministry of Finance appeared willing, in August, to consider direct public support for the banks as did Prime Minister Miyazawa. But these signals have since been denied in the face of widespread opposition to the use of public funds to help the banks.

Yet the alternative – a poorly capitalised agency, owned and run by the private banks, that will purchase their bad loans – is a recipe for delay and concealment. Writing off the banks' losses at realistic land prices would destroy much of their capital, and perhaps some banks entirely. In practice, the agency is likely to buy real estate at inflated prices, minimising the apparent loss to the banks but at the price of postponing the inevitable losses and leaving a still distorted land market.

Herein lies the case for public funds. The banks should be forced to accept losses that are as large as they can bear, while land prices must fall by much more than the 10 per cent canvassed by the banks. But this risks destabilising the financial system unless the agency is sufficiently well capitalised and firmly run. Only the Bank of Japan can perform that role. When past errors have been cleared away, along with the managers who made them, the banks will be able to re-capitalise and finance recovery.

Rethinking City regulation

A NEW consensus is emerging in the City: that the current system of UK financial services regulation is so deeply flawed that sweeping changes are needed.

The latest advocate of this view is Mr Mick Newmarch, chief executive of Prudential. "The Financial Services Act is an unsatisfactory basis for the protection of savers," he said yesterday, calling for "investor protection on a fully statutory basis under direct government control".

He is not alone in urging the abandonment of the system of "practitioner based" regulation introduced by the act. In private, other City grandees join the chorus. And even Mr Andrew Large, charged with operating the system as chairman of the Securities and Investments Board (SIB), clearly has his doubts. He envisages "a clear shift to a less self-regulatory basis" as a result of his current review of the way SIB works.

The current system, say its critics, doesn't catch crooks; it allowed the Maxwell pensioners to be defrauded; it imposes an irritating and costly burden on inter-professional business; it consists of too many second-rate regulators, imposing too many rules; it has failed to resolve some very difficult problems of consumer protection; and – says Mr Newmarch – it has become too prescriptive, imposing the regulators' view of best practice rather than the legally enshrined criterion of adequacy.

Clumsily divided

Most of these statements command general assent. The enforcement of the present system – clumsily divided between too many regulators and criminal prosecutors – is clearly unsatisfactory. The Maxwell affair scarcely came within the regulatory structure – in itself a criticism of the law – but where it did, the safeguards failed to work. There is too weak a distinction between the regulation appropriate to inter-professional business and that necessary for the protection of savers. There are too many regulators, with overlapping jurisdictions and conflicting styles – and, probably, too few really first-rate people.

These issues are largely resolvable within the current legal framework, though additional leg-

islation would be necessary to protect pensions and to give SIB the power to exact civil penalties as an alternative to unwieldy criminal prosecutions.

The remaining criticisms are more intractable. Consumer protection of individual savers is the most difficult issue tackled by the Financial Services Act. The imbalance of knowledge between salesman and client – and, arguably, between industry and regulator – creates very difficult problems of investor protection. In other countries, this has been resolved by tight control of the products that can be offered, at the price of stifling innovation and entrenching market share.

Free hand

The UK, by contrast, has traditionally allowed insurance companies and other financial institutions a free hand in product innovation. Since what is sold is uncontrolled, the debate has shifted to how it is sold. Here, the regulators have arguably failed miserably: an industry increasingly desperate to find outlets for its products is permitted to feed customers inadequate information and competes through higher commissions for intermediaries rather than better value for investors.

This is rather different from the problem identified by Mr Newmarch: that regulators are "predisposed to believe that the answer to every problem lies in the extension of their own powers". Rather, the flaw lies in the unwillingness of the regulators and – as Mr Newmarch acknowledges – the industry seriously to address the complaints of consumers.

By urging the industry to face up to these complaints, Mr Newmarch has done it a service. He deserves credit, also, for saying in public what others have only been willing to murmur in private. The way that financial services regulation is conducted does require scrutiny and debate – and preferably the independent inquiry which Mr Newmarch recommends. It is too soon to judge whether that debate should lead to a change in the legal framework that surrounds financial services. What is certainly needed, though, is a change in the attitude of the retail financial services industry and those who supervise it.

Britain badly needs more roads and railways. People are tired of traffic jams and slow, overcrowded trains; recession has left the construction industry desperate for work; and after a sudden policy turnabout at the end of last month, the government has become a convert to the need for big capital projects to stimulate economic growth.

But who is going to pick up the bill? At a time when ministers are agonising over ways of meeting next year's £244.5bn planning total, there is little enough money in the public purse to maintain existing spending programmes, still less increase them.

The government, however, believes it has a solution. Mr Norman Lamont, the chancellor, has promised that next week's Autumn Statement will come up with ways of involving the private sector in the funding of capital projects.

The idea is not a new one. In 1981, during Britain's last deep recession, there were similar pressures for capital investment to get the economy moving, and similar calls for private sector involvement to help it along. The Treasury responded by drawing up the so-called Ryrie rules to define the conditions in which private sector funding could be allowed.

As befitted a government for which the control of public spending had become an icon, the rules were a model of fiscal rectitude. One rule, known as the non-additionality principle, decreed that private money invested in public sector projects could only be used in place of public spending, not in addition to it. Another, known as the value-for-money principle, decreed that private funding would only be allowed if it delivered a project more cheaply than public sector funding – a most unlikely possibility since the government can borrow from the financial markets at much lower rates of interest than the private sector.

Not surprisingly, the effect of the rules was to stifle private sector participation rather than to encourage it. But in a sense, it did not matter much. By that time, the government's privatisation programme had started to solve the problem in a different way – by transferring state-owned utilities and their accompanying capital requirements to the private sector.

Transport was a prime target for privatisation. The national airline, airports, ferries, ports, road freight, buses and coaches were all sold. But roads and railways remained stubbornly in the public sector, and by the late 1980s were coming under unprecedented strains as a result of strong economic growth.

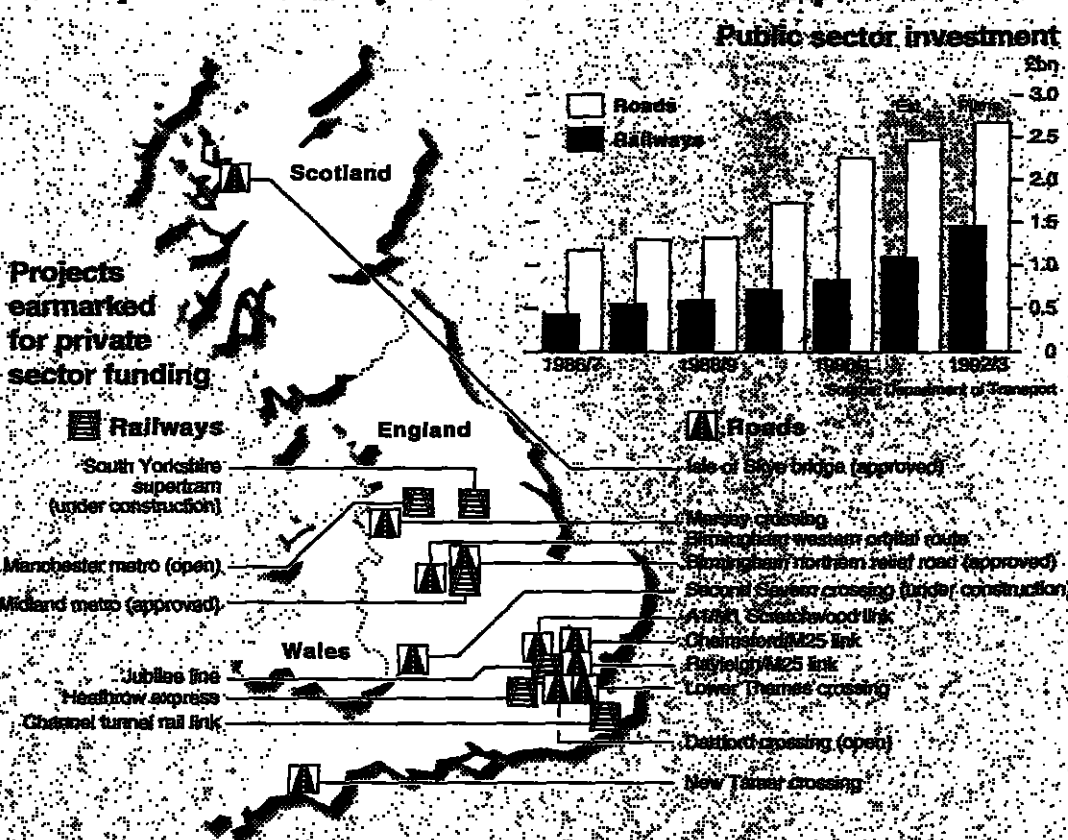
The result was a renewal of calls for private sector involvement in funding transport infrastructure. In May 1989 Mr John Major, then chief secretary to the Treasury, announced that the Ryrie rules would be scrapped. Days later, the Department of Transport published a document called *New Roads By* New Means, heralding the dawn of an era in which the private sector would be allowed to build toll roads.

Three years on, these moves have almost wholly failed to achieve their objectives. True, the privately-funded Dartford Crossing now carries London's M25 orbital motorway across the Thames, but that was an exceptional project approved before the abolition of the Ryrie rules. Since 1989, the construction of the privately-funded Second Severn Crossing has begun, but the only road or motorway project to have been given the go-ahead is the Bir-

Budget constraints are forcing the UK government to seek new ways of financing transport, writes Richard Tomkins

Private way for public roads

Transport: how the private sector could help



mingham Northern Relief Road – and that is not expected to open until the end of the decade.

One reason why the private sector has proved so reluctant to finance as well as build the nation's transport infrastructure is that the abolition of the Ryrie rules was largely a sham; the Treasury simply re-created the rules in its so-called Green Book in April 1991. Its only significant concession was a softening of the non-additionality principle, allowing for consideration to be given to the use of private funding to supplement public spending.

In reality, however, there is a much more obvious explanation for the private sector's lack of interest in road and railway investment than Treasury rules. It is the fact that companies cannot see an opportunity for making money out of it.

The risks and costs, for example, can be immense. Lead times for transport infrastructure projects typically span a decade or more because of the intractable, and usually controversial, planning processes. Companies are reluctant to risk millions of pounds working up projects only to see them collapse or rendered unviable during the planning phase. And when projects do go ahead, companies may face colossal bills for land acquisition and environmental protection.

The risks would matter less if companies could be sure of earning

appropriate returns. But in Britain, where existing roads and motorways are free at the point of use, it is difficult for companies to charge tolls high enough to cover their costs without losing their customers to free alternative routes.

But simply toll roads only work where users have no cheap or easy option. In other countries which operate them, such as France, they tend to work either because alternative routes are also tolled, or because free alternatives are unsuitable for drivers travelling long distances.

In Britain, it has so far only been possible to introduce tolls on river crossings, where the alternative is another toll crossing or a long detour. If the Birmingham Northern Relief Road works, it will only be because the motorway route for which it provides an alternative is full.

It follows that another attempt to encourage the private sector to build toll roads through a softening of Treasury rules will be futile unless it is accompanied by measures to make such projects viable.

The single most obvious solution would be to sweep away road tax and fuel excise duties and replace them with a system of electronic road pricing – in other words, charging people for use of public roads on a pay-as-you-go basis. This

would not only put private roads on a more competitive footing with public ones, but would have the beneficial side effect of increasing the viability of rail.

Transport and environment ministers are increasingly suggesting that road pricing is inevitable, if only as a means of tackling traffic congestion and pollution. Even so, they have made it clear that they are not quite ready for it yet.

In the interim, therefore, the next best solution might be to introduce charges only for those public roads or motorways competing directly with privately-operated routes. One way of doing this would be to award concessions for route "corridors" rather than specific roads, and allow companies to toll existing roads lying in the corridor to help pay for new ones.

For example, if the government wanted the private sector to build new motorway capacity between Birmingham and Manchester, it could grant a company the Birmingham-Manchester concession and allow it to impose tolls on the existing M6 motorway to help meet its costs during the planning and construction of a new road. Similarly, a company could be granted a concession for the heavily-congested M25 London orbital motorway, imposing tolls on the existing road to pay for a widening programme.

Precedents for this kind of arrangement already exist. The con-

sortium that built the Dartford Crossing, led by Trafalgar House, the construction group, was given a concession to take over the existing Dartford Tunnel. Income from the tunnel and bridge tolls is being used to service the loans, and once these are paid off, the tunnel and bridge will revert to the government. In this case, the consortium's profit comes not from the toll revenue, but from the construction contract and the fees for arranging the loans.

A similar agreement has been drawn up for the Second Severn Crossing, so it is clearly deemed as workable. But it has its drawbacks. One is that it confers undesirable monopoly powers on the concessionaire, implying a need for close government control over charges. Worse, where roads are involved, it means the imposition of tolls where none previously existed, so risking a public outcry and the possible diversion of traffic onto unsuitable secondary roads.

In the face of these obstacles, perhaps the most attractive proposal comes from Sir David Hancock, a former Treasury official who is now a director of Hambros Bank. He suggests that, if a toll road proposal arouses no private sector interest because companies believe it would fail to deliver an adequate return, the government should make it more attractive by offering a grant towards the project's costs. Companies would then bid to see which required the smallest subsidy to proceed.

One attraction of the idea is that the Treasury has already accepted the principle in other areas of transport. In some ways it resembles the scheme under which the government is prepared to consider grants towards the construction of jointly-funded light rail systems, such as the Manchester Metro, to reflect the benefits they can bring to local communities. A still closer parallel lies in the government's plans for railway privatisation, where the operation of loss-making passenger services will be franchised out to the private sector on the basis of which company requires the smallest subsidy to run them.

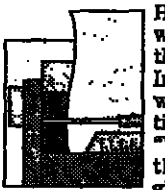
The implications of adopting such a scheme for capital works could spread beyond roads. For example, the government continues to insist that it wants the private sector to provide the planned Channel Tunnel Rail Link between London and the Channel tunnel. In reality, there is no possibility that the link will deliver a return big enough to persuade the private sector to fund it on its own. But an auction to determine which company or consortium required the smallest government grant to undertake the project could get the line built at least cost to the exchequer.

The idea is not a panacea. Treasury, always highly suspicious of schemes which mix public and private sector finance, will see it as a way of using taxpayers' money to subsidise private profit. Mr John Fletcher, a director of Trafalgar House, says no scheme is likely to take off unless the government draws up a programme of works large enough for the private sector to consider it worthwhile getting involved. And even if the government does succeed in getting private funding off the ground, years will pass before any projects reach the construction stage – by which time, Britain can only hope, the country will long since have emerged from recession.

PERSONAL VIEW

Shut the stable door

By Richard Layard and Charles Bean



How to recover without inflating: that is the question. In every recession we conquer inflation and people say: "We have dealt with that problem, so give us a recovery."

And every recovery then brings back inflation.

The problem will be particularly acute this time, owing to the devastating effect of sterling devaluation. Experience shows that the competitive gain from devaluation will soon be wiped out by higher wage inflation – unless this time we address the wages problem before it arises.

The instinct of almost every businessman is against this, and the reaction is understandable. Most businesses feel that wages are now the least of their problems. Business has re-established productivity growth, and for the moment companies are less worried than usual about their unit labour costs.

What worries them is the lack of demand and the high cost of servicing their debts. So they are calling for a recovery package based on infrastructure investment and lower interest rates. Many of them cannot see why the government hesitates to give them this.

But the government takes a longer view. It knows that the basic problem of the British economy is the wages problem. At present wage inflation is still falling as a result of increasing unemployment. But, once unemployment stabilises and then begins to fall, wage inflation will start creeping up again, exactly as it did in the late 1980s.

Almost all our present ills stem from the steady rise of wage inflation at that time. The main reason for the present recession has been the need to reduce wage settlements. We needed to reduce average

earnings growth from about 9 to 5 per cent a year. After three terrible years we have nearly got there but in the end the disinflation was just too late – leading to the national humiliation of a devaluation.

We must not repeat this stop-go cycle in the years ahead. If we do nothing about our pay arrangements, it will be very difficult to expand employment at all without raising inflation above 4 per cent. The business community must exercise some foresight in its own collective interest.

If business does not believe there is an inflation problem, the financial markets do. If interest rates are to be cut as much as we need, the pound will fall and inflation will rise – unless the markets believe pay is under control. The markets know that pay is the prime cost in the economy (though for individual businesses it is often minor, due to multi-stage production).

As soon as the labour market improves, each individual employer has an incentive to raise the relative pay of his workers. But the result is a process of pay leap-frogging. From this process all lose, since it is inevitably followed by another period of "stop". How can we avoid this?

We have to institutionalise the common interest which all employers have in a low average level of wage settlements, while preserving the needed flexibility in relativities. In Germany and Japan this common interest has led to a degree of concerted action among employers, which helps to explain their good performance.

Our system of pay determination has worked less well and we ought to consider some change. In the present economic crisis, I would like to suggest a quite small change, from which I believe we could derive great benefits.

I assume that we shall have some kind of public sector pay limit. Business has rightly asked for something of that kind. But it is not a reasonable request unless we can expect that private sector pay (taken as a whole) will move roughly in line. Companies which are abnormally short of labour should, of course, be raising the relative pay of their workers. But, unless the private sector as a whole is more short of labour than the public sector, there is no reason why the relative pay of the private sector should rise.

So if the public sector pay limit is x per cent, no private sector company should be conceding more than x per cent unless it is abnormally short of labour (or needs to reward an exceptional increase in the efforts of its workers).

The government should therefore announce a recovery package as the CBI asks – on one condition. The CBI should establish a committee which would comment publicly on any private sector pay settlement above x per cent. The committee would be expected to criticise all settlements which could not be justified on the above criteria.

Even this arrangement would favour the private sector, for average earnings in industry usually rise by about 2 points more than wage settlements, which does not happen in the public sector.

Some will say the monitoring procedure is unnecessary. If so, it can do no harm. And, if it is necessary, it will do good. Either way, nobody can reasonably criticise it.

Too often we have claimed to have licked inflation. If we have any foresight, we should bolt the stable door now, rather than having again to grab inflation by the tail, once it has bolted. The authors are professors at the London School of Economics

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Edward Mortimer

Dear Mr President . . .



FOREIGN AFFAIRS

Sir, You presumably know who you are, and by the time you receive this letter the world will at least know your name. But as I write, millions of Americans are still putting their crosses against that name - although millions of others are not. On past form, those who stay away from the polling booths altogether will outnumber your supporters.

I have a suggestion for next time. Let the votes of those Americans who do not care enough to use them be given to foreigners, like me, who would dearly love to. All over the world there are people who believe their lives will be affected by decisions that you take in the course of the next four years. No doubt many of those people exaggerate US influence, but they are not wholly wrong. True, the US no longer dominates the world economy in the overwhelming way it did for a decade or so after 1945. But it is the uncontested world champion in military power, more than ever now that the Soviet Union has scratched from the competition.

Whether the US has really begun a long-term process of overall decline is debatable. The answer may depend partly on you. But for the present in any case, and for the foreseeable future, the US enjoys a combination of economic and military strength which no other country even begins to rival. Moreover it is still the main inspiration of popular culture throughout the world, and the country most non-Americans would like to live if they left their own.

All that has given you, the American ruling elite, an instinctive self-confidence about projecting your power overseas, politically as well as militarily; and it has given us, the rest of the world, an instinctive deference towards your leadership even when we resent your power or disagree profoundly with your judgment. We may argue bitterly against your policies, but we still tend to find ourselves arguing for a different American policy. The idea that we could just ignore you and do our own thing hardly even occurs to us.

What do I, as a citizen of the world, hope for from you as leader of the only superpower?

First of all, I hope that America, if it is declining, is not going to decline too fast; and that obsession with that possibility will not make it turn its back on the rest of us or even worse - blame us and lash out against us when it finds its own problems too intractable. The danger of that is clearly greatest in the field of economics and world trade. We all know the reflex: if you

An open letter from a citizen of the world to the winner of yesterday's US election



US missiles in Kuwait: continuing need for world policeman

are losing market share, it must be because your competitors are playing dirty. So instead of trying to improve your own performance, you concentrate on devising rules to hobble the competition.

Recent US governments have been quite good, by international standards, at resisting that reflex. But the pressures are strong. To a European, Americans often seem obsessed with the "Japanese threat". Obviously there are great dangers for the world if the US gets into a trade war with

at least a dollar a gallon. To us foreigners, the gas-guzzling habits of Americans appear scandalous on both economic and environmental grounds. Well, your countrymen they have to limit their energy consumption both to avoid an embarrassing dependence on Arab sheikhs and to improve their grandchildren's chances of inheriting a habitable planet. Do not be swayed by sob stories from those (mid-western farmers, for example) who say their way of life depends on cheap gasoline; but

Preventing the spread of conventional and nuclear weapons should be at the top of your priorities

Japan, but also if it tries to solve the problem by bilateral deals, regulating both markets at the expense of third parties.

I hope you will tackle that notorious budget deficit, as you have promised to do. That means you will have to have the courage to tell the American people that whatever you rashly said during the campaign about not increasing taxes on this or that category of the population cannot be interpreted as ruling out effective action to deal with this great national incubus.

Start with a gasoline tax of

if any do convince you, give them the money in cash. Do not repeat the mistake the EC is trying so painfully to undo in its agricultural policy, of allowing an entire market to be distorted by the special needs of one social category.

And don't be afraid to cash the "peace dividend". America will have no difficulty in remaining the world's leading military power with a much smaller financial outlay than was required to compete with the Soviet Union in a nuclear arms race while maintaining over 300,000 troops on a war

footing in Germany.

Of course there will be plenty of special pleaders urging you to keep bases open or not to cancel weapons systems. But if you really want to spend taxpayers' money on keeping people in work, there are many more efficient ways to do it than by paying them to produce machines which are at best useless, at worse apallingly destructive. Nor should anyone deceive you into thinking you are making the world safer by manufacturing weapons for export. Preventing the spread of weapons, both conventional and those "of mass destruction", should be at the top of your priorities.

In the post-cold war era your contribution to world security cannot be measured by the number of soldiers you keep posted abroad. It will be measured, in part, by the tasks you let them undertake. There is no longer a hostile power block, and therefore no front line to man against it. One interest the US shares with the rest of us is to prevent that situation ever rising again. So please make every effort to help those who are trying to turn Russia into a civilised power, integrated into the world economy; and encourage China to continue opening up; don't drive it back into autarky and xenophobia.

Even simple objectives such as the defence of one state's sovereignty against another's aggression (as in Kuwait) may in future be the exception rather than the rule. Security has become a matter of defending people against each other - in places where sovereignty and borders are contested as much by the locals as by outsiders, such as the former Yugoslavia; or where the state has virtually disappeared, as in several African countries. Where possible, things should be prevented from getting that far, through timely diplomacy. Sometimes a show of force at an early stage may avert the need to use force at a later one.

Of course the US does not want to be a lonely world policeman. There are tasks for multilateral structures, and above all for the United Nations - an engine largely of American invention, whose usefulness the US has lately rediscovered. But recent experience has shown that multilateral structures can work with US leadership (the G8), not without it (Yugoslavia).

Americans must be prepared to do their bit, and pay their whack. Compared with the cost of the cold war, multilateral police operations will be cheap. Some of that peace dividend should be spent on them.

Oh, and one last thing. You have an excellent ambassador in London. Since he is a career diplomat - the first ever appointed to that office - there is no need to replace him, whichever side has won the election. Let him stay.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL.
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R&D tax breaks are needed up front

From Mr Ben Coleman.

Sir, When it comes to government incentives for firms to invest in research and development, tax incentives may well be preferred by certain companies, such as the 86 per cent of respondents to a recent KPMG Peat Marwick survey ("Tax boost switch urged to boost R&D", October 12).

Yet the full report which I have just received, ignores the important distinction between large and small firms. While larger companies may be able to lay out funds now in the expectation of a tax break later, smaller ones (which provide the bulk of new innovations) need the 50 per cent cash up front that most R&D schemes provide.

It would be unfortunate if the government, as it seeks to reduce overall public spending, acted on the survey's apparently well-grounded findings to cut the already modest budgets of British schemes such as Link and Spur. Small firms are finding life tough enough as it is.

Ben Coleman,
102 St George's Square,
London SW1 3QV

Broad customs union should be on Edinburgh agenda

From Mrs Shirley Williams.

Sir, I hope you will continue to use your considerable influence to campaign for a Europe-wide customs union that would embrace the eastern European countries (leading article, "Eastern vision", October 28). Such a customs union might also reach a trade agreement with the former Soviet republics, based on a payments union. Central and eastern Europe lost large parts of its trade following the collapse of Comecon - part, but not all, of which has been compensated by increased trade with the European Community. From the safe ground of a Europe-

wide customs union, natural trade patterns with the Commonwealth of Independent States could be re-established.

The "Europe Agreements" between the EC and Poland, Hungary and the Czech and Slovak Federal Republic have been disappointing, since almost all the commodities in which these countries have a comparative advantage (steel, textiles, certain agricultural products) are restricted by quotas. The agreements are also, as you say in your leader, bilateral.

The central and eastern Europeans are coping bravely with a steep fall in per capita

gross domestic product, rising unemployment and spreading poverty. Their political and economic stability is vital to us. (The former Yugoslavia provides a grim lesson in the costs of disintegration.) The need for a customs union to replace the agreements is therefore urgent. The EC, and its British presidency, should put this issue on the agenda of the Edinburgh summit now.

Shirley Williams,
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First step towards European integration recalled

From Mr Aubrey Jones.

In your article, "Nowhere else to go" (October 30), you relate how the prime minister said that the UK's first mistake in European policy was "when we failed to join the Community at the outset", and ascribe that failure to Anthony Eden.

I would put the failure back in time, to around 1950. The late Jean Monnet once described to me a meeting with Sir Stafford Cripps, then Britain's chancellor of the exchequer, and Edwin (now

Lord) Plowden, then a Treasury adviser.

In that meeting Monnet proposed that the UK should join the then projected Coal and Steel Community, making it clear that he was interested in more than just coal and steel, and that coal and steel were but a first step towards European integration. He was turned down.

I referred to this meeting in a speech in the House of Commons on May 17 1991 (Hansard, vol 640, columns 1,429-1,437).

Douglas Jay intervened to rebut my wider interpretation of Monnet's proposal. However, my memory of Monnet's conversation with me is quite clear and the wider interpretation is confirmed in Monnet's memoirs and in an anthology of speeches entitled *Les Etats Unis d'Europe* (Oxford: Clarendon Press, 1991).

Aubrey Jones,
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Lesson to draw is that record of all economic forecasters is poor

From Mr Patrick Foley.

Sir, Your analysis of economic forecasters' accuracy during the recession makes interesting reading ("Britain's top 10 forecasters", October 30), but the main lesson to be drawn from such analysis is surely the poor forecasting record of all those included (including ourselves).

Those who feature at the top of the table should not be too hasty in congratulating themselves. There is much less difference between the best and worst forecasts in your table than there is between the best and the actual outcome. On your figures, the best forecaster (Smith New Court) predicted a total 0.3 per cent rise in GDP in the two recession years, 1991 and 1992. The final

outcome looks likely to be a fall of 3.3 per cent.

We have looked recently at the causes of this poor record, to see whether it can offer any clues as to how forecasts might be improved in the future (see *Lloyds Bank Economic Bulletin* July 1992). What appears to have made this recession deeper than forecast was the reaction of businesses to the initial signs of slowdown: 1990 and 1991 saw very sharp cutbacks in investment, output, employment and stocks by industry, concentrated first in services but then spreading to other sectors. This is the natural reaction of businesses to a deterioration in their external environment, especially when they are relatively highly geared - and thus highly risk

averse - as many were in the late 1980s. However, it is not one that most economic models are designed to predict.

The failure of the economy to begin to recover in 1992 (whereas all forecasters in your table predicted an upturn) can be attributed to the continued financial fragility of the personal sector (see *Lloyds Bank Economic Bulletin*, September 1992). This is another failing for models which do not appear to take sufficiently sophisticated account of the effect of personal finances. Peter Warburton was thus right to stop using computer models when he did. If only the rest of us had done the same! This analysis suggests, by the way, that to the extent that forecasters of

a monetarist persuasion were more accurate, they appear to have been right for the wrong reasons.

Finally, one complaint about your assessment method. In times of rapidly changing views about economic prospects, it is much easier for an organisation which revises its forecasts monthly to score well than one which publishes its views only once or twice a year. This suggests to me that the Treasury forecast compares favourably with even the best in your table.

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OBSERVER

Peripatetic pen-pushers

■ If you are wondering about the City analyst who has been turning in those hefty profit warnings on your company, Citigate may be able to help.

The FR pundits who last week, with Price Waterhouse, published the third annual Who's Who of Analysts, have just finished reading the tea-leaves on the information gathered during the course of the directory's compilation. The stereotype teenage scribbles emerge roughly as follows.

They are male (86 per cent), probably married (64 per cent), and Oxbridge-educated (24 per cent). A staggeringly well-prepared 16 per cent have read economics, with the next most popular degree (5 per cent) business studies. Recruiters obviously pay attention to star signs, because 11 per cent are Aries, whereas only a complex, introverted 6 per cent are Scorpios. They are in their mid-30s, and are most interested (what an uninspired lot) in travel, music and golf.

Their measured existence notwithstanding, Messrs Average Analyst are big achievers in the marital stability stakes - with a nationally highly atypical 0.84 per cent divorced. The same cannot be said, however, of their record on the employment continuity front.

Of course, we did know that analysts were an itinerant bunch - shovelled from pillar to post by their employers these days as much as being desperately in search of the bigger bonus. But Citigate can now reveal that, among those analysts at firms which appear in both the 1989 and the 1992 surveys, only a paltry 31.5 per cent have not changed sides

in the intervening three years. "Think of the savings for the pension funds," mused one scribbler, the fruits of whose research has landed on his clients' desks from a number of different addresses.

Much ado

■ The art of the metaphor is flourishing in South Africa - a country not known for flights of linguistic fancy.

Thus a few months ago an ANC-aligned group of economists and academics produced a set of economic analogies which took inspiration from the zoo. South Africa, it said, faced four scenario options: ostrich, lame duck, Icarus, and flamingo. These amount to: still keeping heads in the sand; falling to fly because of structural defects; soaring towards prosperity, but collapsing in a heap of populist inflation; and flying off serenely into a glowing sunset.

Now, Nico Cyprianka, group economist with the Standard Bank group, has sought refuge in the sea, with apologies to Shakespeare.

He says South Africa has three options: A Midsummer Night's Dream, with "fair weather, favourable tides and a sound ship"; All's Well that Ends Well, where "those at the helm sail the ship into calmer waters"; and "The Tempest" where the wrong course sinks the ship.

If the cap fits

■ As a fustian critic of the shortcomings of the North American Free Trade Agreement, which he claims would create a "huge sucking sound" of American manufacturing jobs heading south to Mexico, it is a pity that the diminutive Texan multi-millionaire Ross Perot



"I'm a Tory rebel with a small T"

should be let down by the less than deeply patriotic red-white-and-blue baseball cap that was last week being distributed by his campaign team in Florida. "Perot for President" it reads on the outside. "Produce For You In China" on the label inside.

Generosity

■ With gold prices languishing, analyst Graham Birch has long been recommending producers to cash in on the huge mark-ups available in the jewellery market. The message seems to be getting through: Western Mining Corporation, one of Australia's big gold producers, is now offering shareholders and employees "the rare opportunity to purchase quality, 18 carat gold jewellery".

Birch points out that the WMC scheme shows what "added value" in the gold market is all about. The corporation is offering, among other items, a bangle containing not quite one ounce of gold. At today's prices the intrinsic value of this bauble

is about £175. The price WMC is charging is £762.

But, as Birch says, "WMC is generously throwing in postage and packing for nothing".

Clear as Bell

■ Mystery - what mystery? Amateur sleuths' continuing search for the real-life original of Sherlock Holmes is exasperating Observer, especially the latest claim by devotees that the model was American burglar-alarm inventor Edwin Holmes who had a partner called Thomas Watson.

The matter was cleared up some 70 years back by the detective's creator Sir Arthur Conan Doyle who said the original was one of his tutors, Scots surgeon Joseph Bell.

Here is Doyle's own description, quoted in *The Story of 25 Years* published by the News Chronicle company in 1938:

"He was a very skilful surgeon, but his strong point was diagnosis, not only of disease, but of occupation and character.... In one of his best cases, he said to a civilian patient: 'Well, my man, you've served in the army?' - 'Aye, sir.' 'Not long discharged?' - 'No, sir.' 'A Highland regiment?' - 'Aye, sir.' 'Non-commissioned officer?' - 'Aye, sir.' 'Stationed at Barbados?' - 'Aye, sir.' 'You see, gentlemen,' he would explain, 'the man is a respectable man, but did not remove his hat. He did not in the army, but he would have learned civilian ways had he long been discharged. He has an air of authority and he is obviously Scottish. As to Barbados, his complaint is elephantiasis, which is West Indian and not British.'"



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Swedes oppose joining EC, says poll

By Christopher Brown-Humes in Stockholm

A MAJORITY of Swedes now oppose European Community membership, according to a new poll.

It found that 53 per cent would vote No if a referendum on the issue were held now, the first time that opposition has broken through the 50 per cent level. Only 30 per cent are in favour of membership.

Opposition is particularly strong among women, the under-30s and blue-collar work-

ers. The anti-EC mood has intensified during the year, with March the last time more Swedes favoured membership than opposed it. A month ago, 45 per cent were against the EC, and 35 per cent in favour.

The poll's findings will alarm not only Sweden's centre-right coalition government, but also the opposition Social Democrats. Both back the country's attempt to join the EC in 1994. A binding referendum on the issue is due to take place in 1994.

Meanwhile, US credit rating agency Stan-

dard & Poor's has given a significant endorsement to recent Swedish policy initiatives by maintaining its 'AAA' rating for the country.

It highlighted the country's determined defence of the krona, tough measures to reduce the budget deficit and promised support for the financial system. "Continued wage moderation and the government's stated plans to reinforce fiscal adjustment are the key near-term factors supporting Sweden's 'AAA' rating," the agency said.



Low point: As the mood of German business and industry is at its gloomiest for 10 years, finance minister Theo Waigel (left) and chancellor Helmut Kohl discuss the budget deficit at a parliamentary meeting

Recession fear damps German business mood

By Quentin Peel in Bonn

THE MOOD in German business and industry is gloomier than at any time for 10 years, and talk is openly of recession, according to the annual survey of business opinion by the German chambers of commerce and industry, the DIHT.

The poll covering more than 25,000 enterprises in both the east and west of the country shows that the number believing the state of the economy is good has halved in the past year, from 44 per cent to 22 per cent.

The number judging it bad has grown from 11 per cent to 25 per cent.

The same gloomy picture emerges from employment forecasts - with 32 per cent expecting to cut their payrolls, against 9 per cent promising expansion.

Mr Franz Schoser, chief executive of the DIHT, said yesterday: "For German business, 1993 will be a tough year. Since the unification boom is over, a recession can no longer be ruled out. For the coming months, we see no chance of a fundamental change in economic growth prospects."

German industry was equally pessimistic about export prospects because of the stagnating international economy and the appreciation of the D-Mark within the European exchange rate mechanism, he said.

The one ray of light shown by the survey is that investment plans in eastern Germany are expected to continue to increase - in spite of the latest decisions by Mercedes-Benz and Krupp to shelve big plans for expansion there.

Just 19 per cent of west German enterprises expect the economic situation next year to improve, whereas 31 per cent expect it to get worse.

Mr Schoser suggested that the recent report of the five German economic research institutes might be over-optimistic in expecting the beginning of a recovery after the second quarter of 1993.

In east Germany, the mood of enterprises has become more cautious in the last six months, although it is more hopeful than last year.

The survey expects the pace of job losses to slow down, although the process of large-scale struc-

tural change has by no means ended. The survey identifies the main factors cited by investors as a brake on investment in eastern Germany.

Western industrial investors put legal uncertainty top (38 per cent), followed by the lack of administrative capacity, lack of infrastructure, and the burden of environmental damage.

East German investors cited lack of access to finance as by far the greatest problem (70 per cent of industrial enterprises, although only 35 per cent of commercial concerns).

Within west Germany, the only region with an overall positive expectation in the coming year was Hamburg.

FRAG, the large German hall-building producer, yesterday announced the closure of its subsidiary in east Berlin with the loss of 470 jobs. The east Berlin company had losses this year of DM22m (\$14m) on sales of DM18m.

IBM Deutschland said it would cease hardware production at its west Berlin plant which would be converted to software output and service. About 150 jobs will be lost.

Canadian banks cut interest rate as economy strengthens

By Bernard Simon in Toronto

A SPATE of encouraging economic statistics has lifted hopes that Canada's recovery is at last on firm ground.

Despite earlier warnings that a No vote in last week's constitutional referendum would be a serious blow to investor confidence, many economists are optimistic that uncertainty during the referendum campaign has only slightly delayed the upswing.

Canadian banks yesterday implemented the second cut in their prime lending rate since the referendum, bringing the rate down by a quarter percentage point to 7.5 per cent. The prime rate jumped by two percentage points in the run-up to last week's vote.

Mr Ernie Stokes, chief economist at the Wefa consultancy group in Toronto, predicted that the sharp rise in interest rates before the referendum would delay the recovery by no more than about three months. Wefa

forecasts the prime rate will drop as low as 6.25 per cent next year.

Evidence of strengthening business conditions includes a 0.4 per cent increase in Statistics Canada's composite leading indicator in August, the biggest rise since last November.

The government also reported real growth of 0.5 per cent in gross domestic product in August, pointing to an annualised expansion of about 2 per cent in the third quarter. With the exception of some forestry and energy companies, corporate profits showed a marked improvement between July and September.

Economists expect a growth rate of about 2 per cent for 1992 as a whole, rising to about 3 per cent next year. "While this is a slow and unspectacular recovery, it remains a recovery nonetheless," said Mr Ravi Bulchandani, of Goldman Sachs in New York.

The pace of the upswing is expected to depend heavily on the Bank of Canada, which has so far kept monetary policy tight

to avoid a plunge in the Canadian dollar. With inflation running at slightly more than 1 per cent, real interest rates remain high.

Mr John Crow, the central bank's governor, has indicated, however, that while monetary stability is a priority the authorities have few immediate concerns about inflation. Mr Crow said in a speech last week that inflation had fallen faster than expected. "What is particularly important is the fact that costs of production in Canada are now under much better control," he said.

Little stimulus is expected from government spending over the next year. The provinces of Ontario and British Columbia have indicated that tax increases are in the offing.

Mr Donald Mazankowski, federal finance minister, has pledged to keep a tight rein on government spending, although his resolve will be tested next year as a general election, which must be held by November 1993, approaches.

Prudential chief says regulation move failed

By Norma Cohen and John Authers in London

MR Mick Newmarch, chairman of Prudential Corporation, Britain's largest life insurer, said last night that self-regulation of the UK's financial services industry was a failed experiment. He said it should be scrapped and replaced with statutory regulation.

"The Financial Services Act is an unsatisfactory basis for the adequate protection of savers," Mr Newmarch said in a lecture at the Staple Inn Actuarial Society. "The implementation of the act was bold and well intentioned but the government should now acknowledge that the experiment has failed and begin to organise investor protection on a fully statutory basis under direct government control," he said.

He also called on his own industry, life insurance, to face up to valid criticism of its sales practices launched by consumer groups, the Office of Fair Trading and the press.

"The trading practices of the savings industry - and in particular of life offices - are subject to attack on an unprecedented scale. This must be a matter of concern to the whole industry," he said.

If the OFT cannot be persuaded to endorse current practices "we must take on board the message that our products and our methods of presenting them have not kept pace with the changing expectations of the public".

After Mr Newmarch's speech, the audience of about 300 life insurance and pensions practitioners, expressed near-unanimous support for his proposals through a show of hands.

His remarks come as the Securities and Investments Board, the chief watchdog for the self-regulatory system, is preparing a review for the Treasury about its own role. Mr Andrew Large, SIB chairman, has said he favours more statutory regulation.

Mr Newmarch's remarks are the first time any leading industry figure has called publicly for the scrapping of self-regulation and the first public acknowledgement by the life insurance industry of consumer concerns.

In explaining why he made such a public appeal, Mr Newmarch said he hoped to prompt the industry to begin thinking constructively about alternative regulatory structures. "If we don't get the message out the whole debate will just drift on and on," he said.

Mr Newmarch also declared that the SIB's efforts to reorganise self-regulation for retail financial services - the thorniest of all issues now before it - face failure.

The SIB has proposed a new framework, the Personal Investments Authority, to subsume two existing self-regulatory bodies, Fimbra and Lauto as well as absorb a third of the membership of a third, Imro.

"It has become apparent beyond reasonable doubt that the PIA does not enjoy the support necessary in the industry to achieve its successful launch as the sole regulator of private investor business," he said.

The life insurance industry in general, and Prudential in particular, had warned it would not join the new PIA unless banks and building societies join it as well. So far, those have shown no inclination to join.

His remarks prompted the SIB to defend the PIA, saying it hoped the PIA would indeed be successful. Moreover, SIB said, Lauto, the self-regulatory body for the life insurance industry, had recently had notable success in rooting out bad practice.

Editorial Comment, Page 20

THE LEX COLUMN

Thames turns choppy

It brings back memories of the old days to see a company punished by the market for delivering interim dividend growth of "only" 7.8 per cent. In common with other water companies, Thames has no incentive to apply gloss to its figures ahead of the periodic review by the regulator in 1994. But having flourished on expectations of high and stable dividend growth, water companies can hardly complain when investors are disappointed.

Thames still has to prove it is an effective manager outside the business of water supply. Its international hedge-fund of waste and engineering businesses made a profit of less than £1m in the first half on turnover of £123m. Even allowing for the ravages of the cycle, it looks as though Thames paid too much for the likes of UTAG in east Germany. Still, Thames has an impressive ability to take out costs in the basic water business. With a two-year deal with the regulator on pricing already in the bag, real annual dividend growth of around 4 per cent looks certain, at least up to the 1994 review.

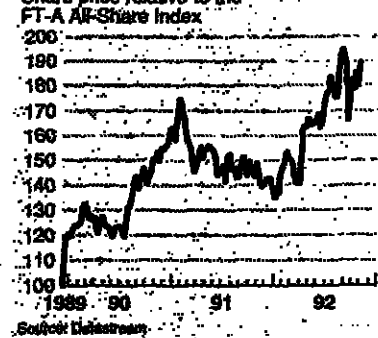
Soon, though, the market will have to address the issue of how the sector will fare in the second half of the decade. By changing its licence to stop Ofwat meddling with its prices between the reviews scheduled at privatisation, Thames has taken the regulator by the horns. The downside is that, if costs are higher than anticipated, the company will be unable to pass them on to the customer.

True, the regulator has promised to take this into account when setting Thames' new pricing formula in 1994. But there is precious little hard information to go on. Ofwat is shortly due to publish details of how the review will be conducted. That will give the market something more serious to worry about than a slightly disappointing dividend.

FT-SE Index: 2705.6 (+17.8)

Thames Water

Share price relative to the FT-SE Index



The approach can in part be explained by the desire of the regional electricity companies (RECs) to maintain a high profile with consumers. There are also customer service requirements which pin the companies to town centres. But given the very tough market for electrical goods, the electricity shops look increasingly like spotters which can afford to stay in the game only because they have rich parents.

Under the circumstances the complaints from Mr Stanley Kalms, chairman of Dixons, are hardly surprising. Whatever the truth about suggestions of cross-subsidy, the losses incurred by the retailing operations of the RECs are a neat-bite compared with their electricity transmission profits. The financial strength of the RECs also allows them to bid up the price of potential sites. Then again, Dixons' view of competition in electrical retailing is in contrast to its fears about monopoly when it was defending itself from Kingfisher.

Currencies

It will take the currency markets a little while to absorb the US election result. In the run-up to yesterday's poll there were conflicting opinions about the likely course of the dollar. One school argued that a Clinton victory would produce a combination of tighter money and looser fiscal policy similar to that which pushed the dollar sharply higher in the early Reagan years.

The dollar would still rise, though less spectacularly, with a Bush victory, because election uncertainty would be out of the way in the US,

while the German economy looks weaker by the day.

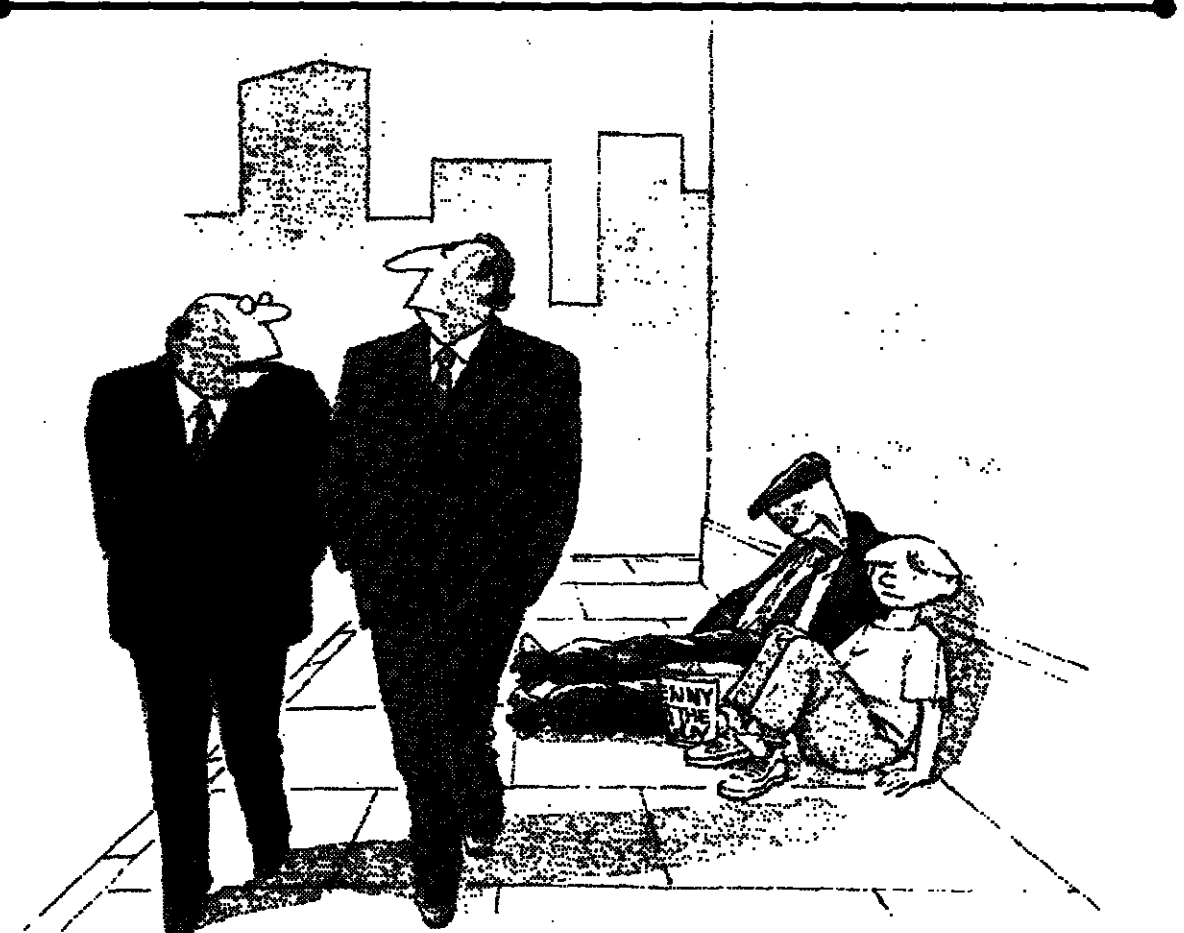
The other school is less certain. It argues that the US recovery remains elusive, while the Bundesbank may be tentatively slow in cutting official rates. Indeed, Mr Helmut Schlesinger, the bank's president, implied as much in Leipzig yesterday by reiterating concern about wage increases and the budget deficit.

Whichever version is correct, at some stage the market focus will shift away from interest differentials to relative growth prospects. The D-Mark would suffer all the more in that process if, by then, the Bundesbank had compounded Germany's downturn by excess of monetary zeal. How much more of that the market is now prepared to discount is another matter. The election will hardly produce much short-run change in the US fundamentals. But by last night's European close the dollar had already risen 13 per cent from its low against the D-Mark on September 2.

Allied-Lyons

The new top team at Allied-Lyons is proving anything but sentimental. The decision to put Château Latour up for sale makes sense in strategic terms, however strong the temptation to cling on to such a proud name. The estate has never made the group much of a return. The disposal will take Allied a stage further down its chosen route of focusing on international growth brands. Together with a cash injection approaching £150m from its Carlsberg venture, the proceeds should soon make a substantial dent in group net debt of £1.9bn. Accordingly, interest cover should rise from the current level of 3.8, which is low in comparison with 6.3 at Grand Metropolitan and 6.9 at Guinness.

That said, it is difficult to see the company making much of a turn on the deal. Based on the price at which it acquired the bulk of its stake from Pearson, and other investors since 1988, the estate represents an investment somewhat in excess of £100m. Allied has given few details about how much the business actually earns, but it is a fair bet that it would need to conclude a sale on a multiple of between 20 and 30 to break even. It must be hoping that Axa, or whoever the final purchaser turns out to be, will not also latch on to the folly of buying brand names at unrealistic multiples simply because of their snob appeal.



"Admittedly it's a seasonal business, but the return on capital and the cashflow are outstanding."

Are you looking to diversify your business through acquisition or perhaps streamline it through disposals? When the sums involved are much more than mere pennies, and you don't want to get your fingers burnt, you could benefit from our advice. Call Iain Houston on 071-248 4000.



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World Weather		°C		°F		°C		°F		°C		°F	
		Boulogne	S	12	54	Frankfurt	C	10	50	Moscow	F	18	64
		Brussels	C	9	48	Geneva	F	11	52	Madaga	F	21	70
		Budapest	C	10	50	Glasgow	R	8	46	Malta	F	25	77
		Buenos Aires	R	20	68	Glasgow	R	8	46	Medan	C	23	73
		Cairo	S	21	70	Helsinki	R	7	45	Melbourne	C	13	55
		Cape Town	S	21	70	Hong Kong	S	27	81	Mexico City	C	23	73
		Cardiff	S	9	48	Int'l. Airport	F	7	45	Miami	F	24	75
		Casablanca	F	20	68	Int'l. Airport	F	8	46	Montreal	F	3	37
		Chicago	F	4	39	Int'l. Airport	F	28	82	Paris	F	10	50
		Cologne	F	10	50	Int'l. Airport	F	16	61	Perth	F	10	50
		Copenhagen	S	10	50	Jakarta	R	31	88	Phoenix	F	24	75
		Cork	S	20	68	Johannesburg	S	26	77	Rio de Janeiro	F	21	70
		Dallas	F	17	63	Lisbon	F	17	63	Rome	S	24	75
		Dublin	F	8	46	London	S	11	52	Sao Paulo	F	24	75
		Edinburgh	S	9	48	Los Angeles	S	17	63	Seoul	F	18	64
		Faro	F	21	70	Luxembourg	C	7	45	Stockholm	F	7	45
		Florence	S	15	59	Madrid	S	20	68	Sydney	F	21	70
										Taipei	F	23	73
										Tokyo	F	18	64
										Toronto	F	10	50
										Tybe	S	22	72
										Ulaanbaatar	C	14	57
										Vancouver	F	15	59
										Vienna	R	7	45
										Warsaw	F	10	50
										Washington	F	14	57
										Zurich	C	8	46

INSIDE
BAT seeks to expand in east Europe

BAT Industries, the UK-based tobacco conglomerate, is negotiating to establish a joint venture with Moscow's largest cigarette factory. This marks a further advance in its long-term expansion strategy in the former Soviet bloc, where cigarettes are a currency that does not depreciate. Page 29

India's markets under strain

A sharp decline in India's scandal-hit stock markets in the past month is making life increasingly difficult for companies seeking to raise funds in the capital markets. The Bombay Stock Exchange's 30-share index fell 14.5 per cent between October 1 and last Friday, including a 5.3 per cent fall last week. Confidence has been hit by concern about the scandal in the inter-bank securities market, tax raids on brokers' offices two weeks ago, and a flood of rights issues. Back Page

Fruitless search for oil in Burma

Several international oil companies are on the verge of abandoning efforts to find oil and gas in Burma after collectively spending more than \$400m in three years on almost fruitless exploratory drilling. Page 32

Banks' rescuer puzzles Japan

A company set up to help Japanese banks with their bad loans and property collateral will make hardly any impact, according to NHK, Japan's national broadcaster. It found that leading banks have been reselling unwanted land to each other at a profit, and that the lending for ill-conceived property projects continued into this year. Page 25

Problems underfoot

The west European carpet fibre industry is in a sorry state. Falling demand and substitution of materials has led to over-capacity among carpet fibre manufacturers. Page 27

Stakis hopes for get well card

Mr David Stakis, chief executive of the Stakis Group, says the hotels, nursing homes and casinos group has moved out of intensive care and has left the hospital ward. In December, Stakis will produce its results for the year to September 30. Page 30

Henry Ansbacher taken over

Henry Ansbacher, the UK merchant bank, has agreed to be taken over by the First National Bank of South Africa, the first time a South African bank has acquired a UK bank. Page 30

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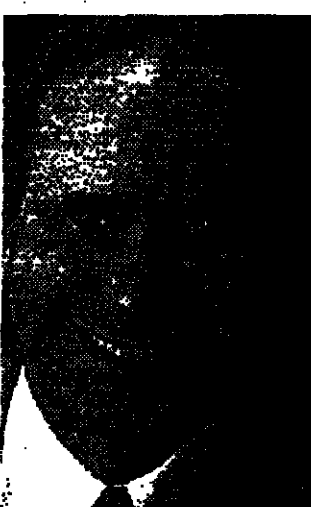
Chief price changes yesterday

FRANKFURT (DM)		Country	10% - 1/2
Bayer	890	Chenoweth	89 1/2 - 1 1/4
Hochschild	1085	Toraco	89 1/2 - 1 1/4
Hochschild Pl	945	Palco	89 1/2 - 1 1/4
Palco	720	PARIS (FFr)	
Colson Kozmin	720	Pole Lynamas	500 + 50
Dalco (Fr)	254	OTI-Europe	283 + 16
Fig Kozmin	107	Palco	31 + 24.2
NEW YORK (\$)		Lugand	4080 + 251
Wessex	32 1/2 + 1/4	Schneider	554 + 34
Gen Motors	262 + 12	Sida Resignat	722 + 43
Palco	20		
Dalco Intl	20		

Tokyo closed. New York prices at 12.30pm.

SEASIDE (Pence)		PowerGen	296 + 17
ADT	453	PowerGen	293 + 10
BGI	723	Rank Org	611 + 25
Berry Widdler	165	Stainless Mt	30 + 3
Clifton Cars	76	T&N Int	28 + 1 1/2
Gardner	15		
Glen	15		
Glen (NL)	858	Beagle	340 - 10
LASMO	153	Marshall	47 - 3
NSM	38	Nipponkoku Wtr	500 - 20
National Power	202	Pearson	350 - 18
Nat	119	Palco Sec	141 - 14
Nobu	104	W&P	684 - 18
P & O Dtd	454		

'We have a new management committee and we are going to have a new GM'
Hughes sees central role for GM Europe



Louis Hughes: clean sheet

By Kevin Done,
Motor Industry Correspondent,
in Ellesmere Port

IN LESS than eight months Mr Louis Hughes has moved from the post of chief executive at Opel to president of GM Europe and now executive vice-president for all GM's international operations. He is part of a small and trusted team put together by Mr Jack Smith, GM's new chief executive and president, to try to resuscitate the battered fortunes of the world's largest industrial corporation. "The chemistry goes back a long way," Mr Hughes said after landing in the UK yesterday. He was in Ellesmere Port, Cheshire, in north-west England where the company today opens its £190m

(\$309.7m) V6 engine plant as part of its plan to increase capacity in Europe by 25 per cent by 1995. GM's New York treasury office and the group's European operations run like a common thread through the careers of the small group of key executives chosen on Monday by a GM board desperate to staunch the group's massive losses in its North American motor operations. "The group knows itself very well," says Mr Hughes. In spite of being a member of the five-man inner circle at GM Mr Hughes will continue to be based in Zurich at the GM Europe headquarters. "It makes sense," he said. "We are trying to take out layers of management. Europe is the critical mass of our international

operations. It is part of our strategy to use Opel engineering and the Opel brand worldwide outside North America. We should steer that from Europe. "And the other critical mass in Europe is Saab. It makes no sense to sit in Detroit with all the challenges in Europe. We will have to get better telecommunications for our management meetings." Mr Hughes sees GM Europe with Opel's German engineering playing an increasingly central role in GM's worldwide operations outside North America. Opel technology already supports GM's Holden operation in Australia. It has previously supported Daewoo Motor in South Korea until last month's divorce between GM and the Daewoo

group became absolute. Opel cars will be assembled in Taiwan from next year, and there are growing links in products and components with South America. "We hope that if Brazil gets into volume production of our Opel cars, we can ship some components, while they manufacture and export through Latin America. "We already design in Germany for so many countries," said Mr Hughes, "but we must be cost-competitive. "We will transform the structure of the international operations. It's time to rethink the way we have done business. We cannot ship all the support staffs from Detroit to Zurich, which is one of the most expensive cities in the world to have as headquarters.

"For me, it is a clean sheet of paper. I am willing to think about anything in terms of structure. We have a new management committee and we are going to have a new GM. That is the only way we are going to win." He said GM's financial traumas in North America had not undermined any capital investment or product programmes in Europe, where GM is the most profitable volume carmaker. "To make money you have to spend money, and we have been given the funds we need to run the business." After dipping in the late 1980s GM Europe capital spending began to climb rapidly at the beginning of the 1990s, and spending would be high for the "next few years," said Mr Hughes.

Travelers hit by hurricane claims

By Nikl Tell in New York

DAMAGE CLAIMS from Hurricane Andrew, the storm system which devastated parts of southern Florida in late August, helped push Travelers Corporation, the Connecticut-based composite insurer, to a \$386m after-tax loss in the third quarter. In the 1991 period it made a \$65m profit. The group has suffered from a souring property investment portfolio in recent years and has been attempting to boost capital through disposals and the sale of a minority share stake to Primerica, the financial services group. Travelers said the after-tax cost of the hurricane was \$240m. It had estimated the loss at \$175m-\$225m, and blamed the higher figure on "the widespread disruption and dislocation of resources necessary to rebuild damaged homes and businesses in south Florida."

Larger-than-expected restructuring charges of \$202m further depressed results. Travelers said it would take a \$132m charge, largely to cover job cuts of 2,500. It now says it plans to axe a further 1,500 jobs among its corporate and administrative staff over the next two years. "Our core businesses are sensitive to the protracted weak economy, and therefore we are conducting an intensive process to streamline operations," said Mr Edward Budd, Travelers chairman. He claimed that savings from the job cuts should start to show through next year, benefiting the company to the tune of more than \$100m a year after tax by mid-1994.

Travelers after-tax loss came after realised investment gains of \$37.5m, compared with a \$15m loss in the same period of 1991. Net investment income was \$696.3m, down from \$792.3m a year ago - largely blamed on under-performing mortgage loans and property. Stripping out the effects of the hurricane, restructuring charges and the accounting changes, Travelers said "core" operating earnings slipped from \$68m to \$44m in the quarter. Travelers posted an after-tax deficit of \$68m for the first nine months, compared with net profits of \$349m last time.

UK utility joins retailing group

Midlands Electricity yesterday confirmed it was to join a consortium with two other privatised regional electricity companies to create the UK's third-largest electrical retailing business. Midlands said it would exercise its option, first announced in May, to acquire 26 per cent of the shares of E&S Retail, an electricity joint venture created by Eastern Electricity and Southern Electricity. These two companies will each hold 36 per cent of the remaining shares. Midlands will transfer all its 82 stores, including three out-of-town outlets, to the joint venture on April 1. This will swell the joint venture's store portfolio to 311 shops with a combined turnover of about £250m.

The pooling of retailing operations signifies a further step in the commercialisation of the once-nationalised sector. However, rival electrical goods retailers have raised questions about the nature of this newly liberalised competition. Only Dixons and Comet, owned by the Kingfisher Group, have bigger turnover in the electrical retailing sector.

Dixons, the UK's biggest electrical retailing chain, yesterday said it intended to file a submission with the Office of Fair Trading, the UK watchdog, alleging unfair retail competition from the regional electricity companies (Recs). Mr Mark Souhami, Dixons deputy chairman, said the ReCs were subsidising their retail activities from profits generated by their electricity interests to the disadvantage of rival retailers and the detriment of electricity customers. "It means consumers are possibly having to pay more for their electricity because these companies are choosing to subsidise unprofitable retailing activities," he said. Mr Eamon Bradley, chief executive of the joint venture, yesterday rejected the charge although he accepted the retail businesses would lose money this year as a result of restructuring charges. Midlands said: "On its own our retailing business is not of sufficient size to have a future by itself and we believe that the joint venture is the right thing to do to strengthen its future."

"It is a completely free-standing operation focused on retailing which is divorced from the electricity companies," he said. "The merger will hold up to scrutiny from any source. We are delighted to see how worried the competition are," he added. Originally, the ReCs opened high street showrooms to offer customers facilities to pay their bills and provide information. Many of them also, as a sideline, sold electrical appliances to promote the wider use of electricity. Retail activities still represent less than 10 per cent of ReCs turnover. But following their privatisation two years ago, many ReCs developed a more serious interest in retailing seeing it as an attractive avenue for expansion in a related but unregulated market. Many ReCs believed there were considerable advantages in merging their retailing, marketing and buying skills and began to acquire more stores as the loss-making Rumbelows chain announced it was making a phased withdrawal from the market.

John Thornhill reports on protests over Midlands Electricity's sales consortium

UK electricals market shares



on strict commercial lines. But this is only likely to lead to the closure of many of the unprofitable smaller outlets leading to a more rational market. "I cannot believe that Dixons or Comet will suffer much over the next five years," he said. Indeed, he suggested that they might benefit from the commercialisation process. Lex, Page 22

Several ReCs have also expanded into more profitable out-of-town locations - even outside their own catchment areas. Mr Bradley said the main thrust of the combined group's future expansion would come from out-of-town superstores. The joint venture will run 11 such stores following the merger but has plans to open up to 50 within five years. The company will fund this expansion programme from its own financial resources. The jobs of 800 Midlands stores

Allied to sell Chateau Latour

By Philip Rawstone in London

ALLIED-LYONS, the UK drinks, food and retailing group, has put Chateau Latour, one of the four leading Bordeaux vineyards, up for sale. Preliminary talks are being held with prospective buyers, including Groupe AXA, the French insurance company, according to industry sources. The Médoc estate - once described by Allied's chairman, Mr Michael Jackman, as "the jewel in our crown" - was estimated a year ago to be worth about £160m (\$260.8m). But in the depressed state of the French wine industry, Allied might struggle to find a buyer at that price.

Allied's decision owes more to changes in the group's management strategy than market conditions. Since the £147m loss on currency trading early last year, the new team of Mr Jackman and Mr Tony Hales, chief executive, has focused the group on international growth brands and improving the return on assets. Allied bought the vineyard in 1988 for £58m. But Mr Jackman said that with profits of about £5m a year the investment was difficult to justify on the basis of return on capital. Allied is considered unlikely to dispose of its other wine businesses. Lex, Page 22

US, Spain lead bank profit table

By Robert Peaton,
Banking Editor, in London

US AND Spanish banks are the most profitable banks in the world, according to IBCA, the UK credit rating agency.

However, not a single Japanese bank is in the world's 100 most profitable, even though eight of the 10 biggest banks in the world, ranked by assets, are Japanese. Only one German bank is in the top 50 and Germany's biggest, Deutsche, is number 116.

Every Year IBCA examines the financial results of the world's 300 biggest banks. It then calculates each bank's profits as a percentage of equity, after adjusting for the inflation rate in the bank's home country, to give a measure of "real" profitability. IBCA expresses each bank's profitability in an index form. A score of one means the bank is earning just enough to maintain its capital after adjusting for inflation. Any score above one means the bank is adding to its capital and less than one that it is depleting capital.

The world's most profitable banks

Bank	Index of real profitability
1 Banco Popular (Spain)	1,398
2 Banco One (USA)	1,300
3 Banco de Santander (Spain)	1,254
4 State Street Boston Corp (USA)	1,239
5 Bangkok Bank (Thailand)	1,232
6 United Overseas Bank (Singapore)	1,227
7 Banco Bilbao Vizcaya (Spain)	1,224
8 Bankers Trust (USA)	1,223
9 Norwest Corp (US)	1,218
10 Bank of China (China)	1,216

But the US also has a large number of successful "super-retail" banks, such as Banc One, which concentrate on the profitable retail market. Two of the world's most successful commercial banks, JP Morgan and Bankers Trust, are also in the US. Universal banks, or banks combining retail and commercial operations, fare badly in the league table. The upper ranks are dominated by retail banks. Three UK banks, National Westminster, Midland and TSB Group, are among 46 banks earning a negative return. However, the UK also has six banks and building societies in the top 50, including Lloyds.

This announcement appears as a matter of record only. October 1992

Erne Holdings Limited

£75,000,000

Senior Debt and Working Capital Facilities

for the acquisition of

F. A. Wellworth and Company Limited

Arrangers

County NatWest Limited AIB Capital Markets plc

Lead Underwriters

County NatWest Limited Bank of Ireland

Underwriters

The Royal Bank of Scotland plc AIB Capital Markets plc

Bank Mees & Hope NV Ulster Investment Bank Limited

Working Capital Facilities provided by

Ulster Bank Limited

Agent Bank

COUNTY NATWEST

A member of the National Westminster Bank Group

County NatWest Limited is a member of The Securities and Futures Authority

INTERNATIONAL COMPANIES AND FINANCE

Tapie said to be in fresh talks on sale of Adidas

By Alice Rawsthorn
in Paris

MR BERNARD Tapie, the French businessman and politician, is said to be holding new discussions on the sale of Adidas, the German sporting goods group controlled by his holding company, following the collapse last month of its proposed sale to Pentland of the UK.

The future of Adidas, controlled by a German holding company in which Bernard Tapie Finance (BTF) is majority shareholder, has been shrouded by uncertainty since Pentland withdrew its £215m (\$329m) offer.

Mr Tapie is known to be keen to reduce his business interests to rebuild his political career. This summer he was

forced to resign from the French cabinet after a seven-week stint as minister of urban affairs because of his involvement in a fraud case.

The case has since been settled. Mr Georges Tranchant, the French businessman who brought the case, dropped his suit last weekend after Mr Tapie agreed to an out-of-court settlement, so defusing the legal threat to his political prospects.

A newspaper report yesterday said Mr Tapie planned to sell Adidas, or to sever his links with BTF, to concentrate on politics again. BTF and Mr Tapie refused to comment on the issue. However, banking sources close to BTF said the report was "close to the truth".

Since the abandonment of

the Pentland offer, US and Japanese sportswear groups have been mooted as potential purchasers for Adidas. Credit Lyonnais, the state-controlled French bank which owns 10 per cent of BTF, has also been cited as a possible investor in Adidas.

BTF originally put Adidas up for sale to raise capital to pay off the debts incurred by its acquisitions during the 1980s. The sale to Pentland would have eradicated the debt leaving it with a cash surplus.

It is now thought to be under renewed financial pressure after the collapse of the Pentland deal and the proposed disposal of the Terrillon weighing machine business and La Vie Claire health food chain.

Rise in fee income helps Banco Exterior

By Tom Burns in Madrid

BANCO EXTERIOR, the flagship of the state-owned Argentinian financial group, has raised its third-quarter net profits by 11.3 per cent to Pta9.1bn (\$188.4m) over the same period last year due to increased fee income and a stringent control of costs and of bad debts.

Exterior's financial income fell by 7.1 per cent to Pta267.8bn over the first nine months, but other ordinary revenue, mainly commissions, was up by 9.5 per cent to Pta18.6bn. Operating expenditure was only 3.2 per cent after a 4.3 per cent reduction in overall costs.

Pursuing "a very active" strategy over insolvencies, Exterior realised Pta22.1bn in bad debts, a 136 per cent improvement on the previous year's volume. Customer loans were reduced, year-on-year, by 3.7 per cent and Pta43.7bn was put aside for doubtful debts, a 19.8 per cent rise in the provisions allocated in the first nine months of last year.

Iberdrola hopes for 10% rise in group profits

MR INIGO Oriol, the chairman of Iberdrola, the Spanish utility, said he was hopeful 1992 group profits would rise about 10 per cent. In 1991, pre-tax profit rose 40 per cent to Pta96.12bn (\$863.6m), Reuter reports from Madrid.

He said last month's peseta devaluation should not have any adverse effect providing provisions could be spread out over several years. Otherwise he saw a Ptasbn provision next year.

Mr Oriol spoke after a shareholders' meeting to approve terms for completing a merger between Iberdrola I and Iberdrola II, which will create Spain's largest private sector utility.

He said profits rose about 9 per cent in the first nine months.

Akzo bucks trend with steady profit

By Ronald van de Krol
in Amsterdam

AKZO, the Dutch chemicals group, yesterday posted unchanged profits for the third quarter, bucking the trend of sharply lower earnings which have been reported by many of its European competitors in recent weeks.

The company also said it still hoped to post higher full-year net profit before extraordinary items, despite the general economic slowdown and adverse foreign currency movements.

Net profit in the third quarter was virtually flat at F116.1m (\$93.7m), compared with F116.1m in the same period of last year. However, net profit for the first nine months rose by 8 per cent to F156.2m.

Mr Syb Bergsma, finance director, attributed the company's ability to maintain profits partly to its product mix, which features specialty products not only in the chemicals sector and pharmaceuticals but also in fibres and coatings.

Last month, Akzo's Dutch

competitor DSM, which is a big producer of base chemicals, reported a decline of more than 50 per cent in third-quarter results.

Other factors were greater efficiency following 2,200 job losses since early 1992 and an improved contribution from activities in the US, which accounts for 25 per cent of turnover.

Overall, the strength of the guilder against many foreign currencies, particularly the dollar, meant that group turnover fell 3 per cent to F14.0bn.

despite a 2 per cent rise in sales volume and a 1 per cent rise in average selling prices.

Operating profit showed a small decline to F127m from F129.9m.

Coatings, fibres and pharmaceuticals posted slight increases in operating profit, but this was not enough to outweigh the fall in chemical products' results to F15m from F19m a year earlier.

Akzo's interim dividend was held at F1.50.

GrandMet completes sale of dairy units

By Paul Taylor in London

GRAND Metropolitan, the UK-based food and drinks group, yesterday completed the disposal of its Express dairy operations with the sale of Express Foods, the UK cheese and food service business, to a management-led buy-out team for £96m (\$147m).

GrandMet put its dairy interests up for sale last year as part of its strategy of focusing on developing international branded products in the food, drinks and retailing sectors.

The sale of Express Foods, one of the UK's biggest cheese manufacturers, means GrandMet has raised around £550m from the sale of its dairy operations. The liquid milk and short-life dairy product busi-

nesses of Express Dairy and Eden Vale were sold to Northern Foods in February for £330m and the Irish businesses were sold to Waterford Foods and Carbery Creameries for £199m (\$166m) in July.

Express Foods, which had trading profits of about £12m on turnover of £270m in the year to September 30, will become an independent company for the first time since it was established in the 1950s. The Express Dairy businesses were acquired by GrandMet in 1989.

Mr Roger Davenport, chief executive, who led the management buy-out supported by Mr Simon Oliver - a leading entrepreneur in the dairy industry who has been appointed non-executive chair-

man - expressed confidence yesterday that the profitability of the business could be further improved. "Over the last few years we have steadily reduced our overheads and we are now leaner and fitter than for a long time," he said.

Funding for the deal was arranged by Electra Kingsway and comprised loans of £45m and equity investment of £51m. The equity was underwritten by Electra Private Equity Partners and Prudential Venture Managers, while the debt and working capital has been shared equally between Bank of Tokyo, Union Bank of Switzerland and Bank of Scotland.

Mr Tim Syder, a director of Electra who will represent the institutional investors on the

board, said the deal represented one of the largest MBOs this year. However, he said it was also "much more conservatively funded" than many earlier management buy-outs, and the purchase price represented a significant discount to net assets, which totalled "well over £100m".

Express Foods is one of the largest suppliers of "own brand" cheeses to the UK retail sector which accounts for about 40 per cent of its turnover.

Although Cheddar cheese represents about 75 per cent of sales, the group also manufactures "territorial cheeses" and produces several value-added products, including Stilton, under the Tuxford and Tebbutt and Lockerbie retail brands.

COMPANY NEWS IN BRIEF

SIEMENS, the German electrical and electronics group, has ended a 22-year-old joint venture with South Korea's Goldstar Telecommunications by selling off its stake on the Seoul stock market, the Securities Supervisory Board said, Reuter reports from Seoul.

The German company sold its final 7.98 per cent holding, about 478,000 shares, between October 25 and 28.

Goldstar Telecom, a unit of Lucky-Goldstar Group, was listed in 1974 and produces cordless phones, home automation and telecommunications equipment. Siemens and Goldstar signed a 25-75 joint venture in 1970 to produce

mechanical telephone switch-board systems.

THE GERMAN association of co-operative banks (BVR) said its members' total balance sheet assets grew at their strongest rate in 11 years in the first three quarters of 1992, Reuter reports from Munich.

Mr Wolfgang Grueger, BVR president, said total balance sheet assets of its 2,750 west German members grew by 9 per cent to DM625bn (\$386bn) from DM572bn in the same 1991 period.

The balance sheet total of the 274 east German member banks was up 11 per cent.

VOELSKWAGEN, Europe's larg-

est carmaker, said it would boost production capacity at its plants in China, Reuter reports from Frankfurt.

Volkswagen said it would raise the annual production capacity of its Santana model at the Shanghai plant to 110,000 next year from 65,000 and increase it further to 150,000 by 1995.

AUSTRIAN Airlines, which is cutting costs to counter losses, is expanding its profitable East European services, company officials said, Reuter reports from Timisoara.

The party-privatised airline will fly to Timisoara twice a week, Mr Norbert Draskovits, the eastern European manager

said on the inaugural flight to the west Romanian city.

SAAB Automobile, jointly owned by Saab-Scania and General Motors, said its sales of new cars on the US market rose 54 per cent to 2,408 units in October from 1,560 units in the same month in 1991, Reuter reports from Stockholm.

The CS and CSE models accounted for 862 units, or 37 per cent of Saab's total US sales in October, the group said.

In the first 10 months of 1992, Saab has sold 22,576 units in the US, an increase of 1.7 per cent over the same period a year earlier.

Thames Water rises to £124m

By Brownlee Maddox
in London

THAMES Water demonstrated that utility companies are not immune to the recession when it reported half-year pre-tax profits up only 5 per cent to £124m (\$190m).

It nevertheless increased its interim dividend by 8 per cent to 6.9p from 6.4p, but the stock market was disappointed the rise was not higher and the shares dropped by 7p to 465p.

Sir Roy Watts, chairman, said the board felt the dividend balanced the interests of customers and shareholders.

Demand for water from businesses fell by 2.5 per cent, or 55m, in the six months to September 30 (against the first half last year). However, rises in

water charges of around 8 per cent and this year's acquisitions pushed turnover up 15 per cent to £503m, against £436m.

Mr Mike Hoffmann, chief executive, said the company had seen an increase in bad debts in the recession.

Pre-tax profit was also held back by the rise in interest charges to £15m, against last year's £3m, as the group took on debt to help fund the utility arm's 10-year £4bn capital spending programme. The London Ring Main, the new watercourse encircling London, which is one of the largest parts of the programme, is due to be finished in 1996 ahead of schedule, but it has helped push net debt to £383m against £327m in March and £166m the

year before.

Mr David Lufham, finance director, said the ratio of debt to shareholders' funds, now 23 per cent, would probably rise to 30 per cent by the year-end, but would then rise more slowly.

Pre-tax profits from Thames' diversification into water services, which now make up half of turnover, fell from £4.7m to £3.5m as UK industrial business weakened and US municipal business slumped ahead of the presidential election. Profits from UK property sales also fell to £3m, against £8m. Tax - almost entirely advance corporation tax on dividend payments - fell to £3m against £5m, allowing earnings per share to rise by 6 per cent to 30.1p against 28.4p.

On Friday Lucia announced a FF1.1bn (\$206m) recapitalisation involving injections of capital from its major shareholders, including the AXA insurance group and Banque Nationale de Paris, as well as Suez and Compagnie Generale des Eaux, two of France's largest holding companies.

Trading set to resume in Olipar, Lucia

By Alice Rawsthorn

SHARES in Olipar, the French property company linked to Mr Christian Pellerin, the property developer, and Lucia, one of its associate companies, are expected to resume trading on the Paris stock market tomorrow. The shares were suspended

pending the completion of the arrangements for the recapitalisation of Lucia, and the announcement of Olipar's interim results. Olipar and Lucia, in common with several other French property companies, have been badly affected by the slowdown in the property sector.

On Friday Lucia announced a FF1.1bn (\$206m) recapitalisation involving injections of capital from its major shareholders, including the AXA insurance group and Banque Nationale de Paris, as well as Suez and Compagnie Generale des Eaux, two of France's largest holding companies.

CHINA & EASTERN INVESTMENT COMPANY LIMITED

Preliminary Announcement of the Final Results for the Year Ended 31st July, 1992.

	1992 US\$	1991 US\$
NET ASSETS	49,569,350	32,587,857
GROSS REVENUE		
Investment income	1,769,951	1,290,468
Net income/(loss) from share dealing	88,703	(69,910)
	1,858,654	1,220,558
ADMINISTRATIVE EXPENSES	1,395,050	973,568
PROFIT BEFORE TAXATION	463,604	246,990
TAXATION	770	2,381
PROFIT FOR THE YEAR	462,834	244,609
SPECIAL INTERIM DIVIDEND - PAID	204,000	-
FINAL DIVIDEND - PROPOSED	204,000	-
RETAINED PROFIT FOR THE YEAR	54,834	244,609
EARNINGS PER SHARE	US\$0.0232	US\$0.0140
FINAL DIVIDEND PER SHARE	US\$0.01	-
NET ASSET VALUE PER SHARE	US\$2.43	US\$1.73
OTHER TRANSFERS TO/(FROM) RESERVES		
Net profit on disposal of investments	US\$406,164	US\$624,460
Increase/(decrease) in valuation of investments	US\$13,804,961	US\$(2,371,924)

EARNINGS PER SHARE

The calculation of the earnings per share is based on profit for the year of US\$462,834 (1991: US\$244,609) and on the weighted average number of 19,952,429 shares (1991: 17,456,261 shares) in issue.

TAXATION

The charge represents overseas withholding tax.

During the year the majority of the Group's income was not assessable to Hong Kong Profits Tax as it was generated from offshore activities and capital transactions. The estimated assessable profit has been wholly absorbed by taxation losses brought forward and tax which would otherwise have been payable at 17.5% (1991: 16.5%) amounts to approximately US\$13,000 (1991: Nil).

EXTRACT FROM THE CHAIRMAN'S STATEMENT

Your Company's listed investments benefited from the positive political and economic climate in China and the Company's net asset value per share has increased by 40% in the year ended 31st July, 1992 whilst the earnings per share has increased 66% in the same period. There is optimism in the Hong Kong market place following positive statements from China's senior leaders and the elevation of younger reform minded protégés of Deng Xiaoping. The normalisation of relationships between China and South Korea further confirms China's intention to open to the outside world. With the Hong Kong economy and corporate earnings expected to grow by 5% and 18% per annum in the next two years respectively, leaving the market trading at an undemanding multiple of eleven times 1993 earnings, and the PRC's continued economic progress and development of their capital markets, there will continue to be attractive investment opportunities for your Company.

FINAL DIVIDEND

Your Board recommends the payment of a final dividend of US\$0.01 in respect of the 1992 financial year (1991: Nil).

REDEMPTION, PURCHASE OR CANCELLATION OF SHARES

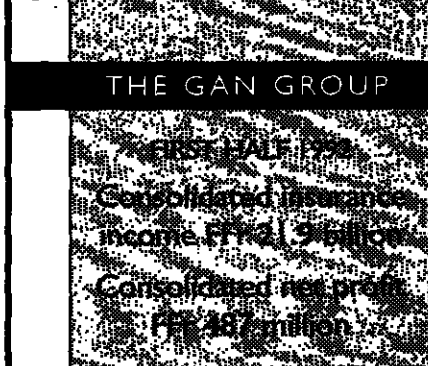
There was no redemption, purchase or cancellation of shares by the Company or its subsidiaries during the year.

By order of the Board

M.G. Bond
Company Secretary
3rd November, 1992

The Annual Report and Accounts will be posted to shareholders in the middle of November, 1992 and will be made available to the public at the Company's Registered Office: 8th Floor, Prince's Building, Hong Kong; in Registrar Central Registration Hong Kong Limited, 19th Floor, Hopewell Centre, 181 Queen's Road East, Hong Kong and its U.K. Transfer Agent: Barclays Registrars Ltd., 34 Beekman Road, Beekman, Kent BR1 4TU. The Annual General Meeting will be held at 11:00 a.m. on 10th December, 1992 at 155 Bishopsgate, London EC2M 4XY.

The Register will close at 4:00 p.m. on 26th November, 1992 and will re-open at 9:00 a.m. on 11th December, 1992. All transfers must be lodged with the Registrar no later than 4:00 p.m. on 26th November, 1992.



The Directors of Société Centrale du GAN at their board meeting on 23 October 1992, presided over by Monsieur François HEILBRONNER, reviewed the consolidated accounts for the first half of 1992.

INSURANCE ACTIVITIES

Consolidated premium income for the 6 months ended 30 June 1992 amounted to FF 21.9 billion, a rise of 11.9% over the same period of 1991 (+11.7% on a comparable basis).

Life assurance and capitalisation in France: the fruits of bancassurance

Income from French life assurance and capitalisation companies rose 3.4%. This increase masked contrasting trends: Socap, the joint subsidiary of GAN and CIC, once again had strong growth (+65%), but GAN Vie, after several years of rapid expansion, suffered a 12% decline in income due to a drop in single-premium contracts.

At the end of June GAN Vie's profit was comparable to that of the first half of 1991.

General insurance in France: continuing expansion

French general insurance companies recorded a 19.4% increase in premium income (+18.7% on a comparable basis).

Technical provisions in the general insurance sector rose considerably over the first half of 1991. Like all the other companies operating in this sector, GAN Incendie Accidents was affected by increased claims in the motor insurance division (particularly car thefts and break-ins), and also by the impact of a greater number of industrial claim.

Due to the considerable decline in the amount of realised capital gains, compared with the first half of 1991, GAN Incendie Accidents' net result was negative.

To address the problem, appropriate measures have been taken, including modulated price increases as well as greater selectivity of risks.

Insurance abroad: returning to breakeven

Income from GAN's foreign subsidiaries rose 18.4% (+16.7% on a comparable basis).

The considerable restructuring undertaken in 1991 in the most affected foreign subsidiaries (portfolio restructuring, price increases, staff and cost reductions) is starting to bear fruit: the net result of GAN's foreign subsidiaries should be close to break even in 1992.

Consolidated insurance net profit: FF 331 million

Increased claims in the general accident area were responsible for the decline of the technical result despite a marked turnaround in GAN's foreign operations. In addition, the prudent management of GAN's portfolio resulted in the realisation of fewer capital gains. The contribution of the insurance activities to GAN's consolidated net profit was therefore FF 331 million.

BANKING AND FINANCIAL ACTIVITIES

CIC Group: a significant increase in provisions

The CIC Group's net banking income rose 5.7% over the same period of 1991 (+4.9% on a comparable basis). Thanks to tight control of overheads, gross operating income reached FF 2.7 billion, a rise of 11% over the first-half figure of 1991.

Small to medium-sized companies are suffering from the present economic slowdown and certain Group subsidiaries are being seriously affected by the recession in the property sector; extremely high provisions have therefore been passed (FF 2 billion against FF 1.3 billion in the first half of 1991) and this effort will also be continued in the second half of the year.

Operating profit after provisions and depreciation amounted to FF 336 million.

Due to the decline in exceptional items compared with the first half of 1991, CIC's net consolidated income amounted to FF 153 million. The contribution of the CIC Group to GAN's consolidated net profit (Group share) was FF 58 million.

GAN's other banking and financial subsidiaries

The other banking and financial subsidiaries comprising BIF (Banque pour l'Industrie Française), Alphabourse, GAN Participations, Finabail, Solyball and UIS contributed FF 98 million to consolidated net profit.

BUSINESS CONDITIONS AND CONSOLIDATED NET INCOME

Consolidated operating income for all the group's divisions - insurance, banking and financial activities - amounted to FF 61.1 billion, a rise of 6.8%.

Consolidated net profit (Group share) was FF 487.1 million for the 6 months ended 30 June 1992, against FF 961.9 million for the first 6 months of 1991.

If there is no improvement in market conditions, and taking into account the exceptional events which have occurred since 30 June (cyclone Andrew, floods in the south of France), the net profit of the GAN Group in 1992 is likely to be considerably less than that of 1991.



Europe's largest banking and insurance Group

INTERNATIONAL COMPANIES AND FINANCE

Date fixed for Rand Merchant Bank listing

By Philip Gavith
in Johannesburg

RAND Merchant Bank Holdings (RMBH), one of South Africa's top three merchant banks, has been granted a listing on the Johannesburg stock exchange from November 25, offering investors their first chance to invest directly in the company.

The listing follows the merger earlier this year of Rand Merchant Bank with Momentum Life, a local insurance company. As a result of the merger RMBH holds 77 per cent of Momentum, which in turn owns 100 per cent of Rand Merchant Bank (RMB), the operating arm of RMBH.

Together with UAL, the merchant banking arm of the Nedcor group, and Standard Merchant Bank, RMBH is one of South Africa's main merchant banks, with a reputation for innovation and entrepreneurial flair. RMB was instrumental in establishing the South African futures market in the mid-1980s.

The listing also offers investors exposure to Momentum, considered by the market to have good recovery potential in the hands of RMB. In particular, it is thought that RMB will be able to improve returns on the R9.2bn (\$308bn) assets Momentum had under management at the end of June.

The Johannesburg exchange has granted a listing for 55m

shares, which analysts believe will trade at about R10 each, giving the group a market capitalisation of more than R500m. No capital is being raised through the listing, which is designed to make shares available to the investment community and to open the way for future funding.

Currently, directors and management hold 46.3 per cent of RMBH, the Sage financial services group holds 26.2 per cent, Absa 13.1 per cent, and other institutions and individuals have 14.4 per cent. Absa, South Africa's largest bank by market capitalisation, is seeking to sell its stake as it already possesses merchant banking activities in the form of Absa Merchant Bank.

Mr Louis Shill, Sage chairman, said yesterday that his company's stake in RMBH was a strategic investment which it intended to hold.

RMBH will be listed in the insurance sector, reflecting the fact that about 70 per cent of group assets are in insurance, and the generally better ratings in this sector than in banking.

It disclosed attributable profits of R37m in the year June 1992. Analysts believe, however, that under the terms of an exemption under the South African Banks Act, RMBH could have transferred assets as a third of its profits to internal reserves in the year.

Japan's banks sweep up their bad loan troubles

A complex company is being set up to untangle the sector's difficulties, writes Robert Thomson

FOR the past few days, ordinary Japanese have been puzzling over the complex structure of a company being set up to aid the country's troubled banks by buying their bad loans and property collateral that has plunged in value.

Meanwhile, the banks have been congratulating themselves on their timely move to deal with what they are seeking to portray as their temporary difficulties.

However, this self-congratulatory mood was crushed on Monday evening when NHK, Japan's sober national broadcaster, laid out the full, gory details of the country's banking crisis. It made clear that the industry's new company would hardly impact on problems extending deep into the economy. Armed with deep pockets of bank documents and a sense of indignation, NHK found that leading banks have been routinely reselling unwanted loans to each other at a profit, and that the lending for ill-conceived property projects continued into this year.

In setting up the new company, the Federation of Banks' Associations faced the conflicting demands of tackling the banks' fast-growing non-performing loan portfolios while maintaining the image that the non-performing loans do not represent a serious threat to the

health of Japan's financial system.

The Ministry of Finance announced on Friday - at the same time as the banks unveiled their new institution - that the non-performing loans of the leading 21 Japanese banks rose by 54 per cent to ¥12,300bn (\$99.2bn) in the six months to the end of the September, while the loans not covered by collateral rose from ¥2,562bn to ¥4,000bn on a total loan portfolio of ¥386,000bn.

Those figures do not tell the full story, as they represent a very narrow definition of a non-performing loan and do not include the troubled loans of all affiliates. A popular estimate for the non-performing portfolios of leading banks is around ¥30,000bn, while there is no accurate estimate of the total number of non-accrual loans held by regional banks, non-bank banks and property finance corporations.

The new institution is expected to begin untangling some of this mess early next year. Ms Mineko Sasak-Smith, chief economist at Credit Suisse Research Japan, said the banks' move was at least "a step in the right direction".

But Ms Sasak-Smith said the company was founded on the questionable principle that there would be buyers for property collateral which the banks had so far been unable to

offload. That is why, as NHK found, banks have been selling properties to paper affiliates, booking profits from those sales and hoping against hope that a worsening property market would improve.

In some ways, the workings of the new company are not far removed from that practice. For instance, Bank A, owed ¥10bn by an ailing developer, would sell that loan to the new institution, which would rely on an "independent" valuation of the property collateral to calculate the loan's market value.

If the loan and land was estimated to be worth ¥7bn, Bank A would provide the ¥7bn for the institution to buy the loan and the right to sell the land. Thus, a ¥10bn non-performing loan to the developer became a ¥7bn loan to a reputable, bank-run company and Bank A could write-off the ¥3bn loss this financial year.

Tax considerations weighed heavily on the banks' federation, as the transfer of land to the new company would have drawn a tax charge. But the new company does allow the banks to sidestep an old dispute with the National Tax Agency, which insisted that the banks cannot write-off loans until the property collateral was sold and the loss was clear.

There is an apparent understanding among the banks and the finance ministry that the land collateral will be generously valued, providing an artificial floor for the property market and limiting the tax write-offs. If, after five or six years, the new company is still unable to dispose of the land, Bank A must buy back the rights and would then take a second write-off, stretching out the tax concessions and delaying the day of reckoning.

The bankers' federation hopes that the valuations, to be done by a panel of assessors and accountants, will stimulate a property market that it concedes is "dead". In the hope of stirring demand, the federation will limit initial dealings with the institution to non-performing loans backed by property collateral which has a chance of finding a buyer and a clear title.

As such, the company will be of use to the larger, less bruised banks able to furnish the loan funds and able to produce a clear title to the property. But smaller institutions, some of which are in particularly bad shape, are unlikely to make much use of the new body, which will have a start-up capital of about ¥6bn, shared among participating banks.

The issue of title is important, as it is becoming clear that less honour-

able property developers borrowed many times on the same piece of land. Meanwhile, the banks, which insisted they only provided funds equivalent to 70 per cent of the value of a property's value, regularly provided money in excess of valuations made at the height of the financial "bubble" era in the late 1980s.

One side-effect of these lending habits is a sharp rise in court actions launched by banks and other financial institutions in an attempt to recover money through auctions of property collateral. In the first eight months, cases rose 36 per cent, essentially because institutions could not agree among themselves on the division of rights to the property.

Clearing away the debris will take many more court cases and far longer than the banking industry has publicly forecast. A survey of 34 banks by NHK found that privately, none of these institutions expect the problems to be solved within three years and half reckon it will take five or more years. Over that period, the bankers' federation is likely to be forced to alter the structure of its loan purchase company and the Japanese government, in one form or another, may have to take the unpopular step of providing public funds to assist troubled institutions.

Textiles company tries to recapture a former industrial glory

Arvind will soon be one of the world's largest suppliers of denim cloth, writes Stefan Wagstyl

ON the outskirts of Ahmedabad, a dusty city in north-western India, engineers are fitting out a new textiles mill with state-of-the-art machinery from Germany and Japan. Bullock carts regularly roll past the site which will soon be one of the world's largest suppliers of denim cloth and also a large producer of material for shirts.

This factory is the pride and joy of Mr Sanjay Lalbhai, managing director of Arvind Mills, the biggest employer in Ahmedabad and one of India's largest textile groups.

Mr Lalbhai is trying to win back for Ahmedabad a touch of its former industrial glory. Once known as the Manchester of the east for its vast cotton mills, Ahmedabad has long since lost its pre-eminence in textiles following decades of declining investment.

Mr Lalbhai is determined that Arvind, which was founded by his great-grand-

father and is controlled by his family, should not follow other regulars into liquidation. "We are very strongly focused on export markets. And we have modernised, unlike some other mills which have made the same products on the same machines for 50 years."

Other large Indian textiles groups are also responding to the government's economic reform programme by investing in export businesses.

They have seen how decades of over-dependence on a protected low-margin domestic market has sapped the industry's competitive strengths. Now that the government is promoting exports, they are trying to put a priority on overseas markets for the first time in decades.

But few companies are as single-minded in the pursuit of exports as Arvind. It is investing Rs200m (\$211m) in an attempt to increase textile exports from Rs500m in the year to March 1992 to Rs500m by the year to March 1994, when fully 60 per cent of turnover is planned to come from overseas sales.

It has this year signed a deal with Cluett, Peabody, the US clothing group, for the joint manufacture of shirts. Within the next year, it is planning to become the first Indian textiles group with sales offices overseas - in New York, London and Hong Kong.

Mr Lalbhai started preparing these moves long before the reformist government of prime minister Narasimha Rao took office last year. Arvind's export programme dates back to the

mid-1980s when Mr Lalbhai decided the group should go into decline if it continued to rely on low-margin, low-quality domestic markets.

His first reaction was to diversify - into electronics and other growth industries. But these moves have brought only modest success. More important was the decision to upgrade textiles production by greatly increasing exports.

Mr Lalbhai believes India has considerable competitive advantages in textiles, including abundant raw cotton, plentiful trained manpower and a long history of textiles manufacture. But he admits Indian companies must overcome some serious disadvantages such as poor infrastructure, little experience of foreign markets and the low-quality image

of Indian goods overseas. He adds that while government reforms have improved business conditions in the past year - especially cuts in duties on machinery imports - severe restrictions remain.

Foreign businessmen who have dealt with Arvind say it is a cut above most other



Sanjay Lalbhai: projects an outward-looking image

of Indian goods overseas. He adds that while government reforms have improved business conditions in the past year - especially cuts in duties on machinery imports - severe restrictions remain.

Foreign businessmen who have dealt with Arvind say it is a cut above most other

Indian textiles companies in quality and efficient service. Mr Lalbhai's ability to project an outward-looking image for Arvind is also not in doubt.

But one buying agent in Delhi warned: "Sanjay Lalbhai knows where he wants to take the company. But will the rest of the group follow him? Don't forget this is a very traditional Indian company."

Mr Lalbhai is aware of the challenge. He has made a point of reforming Arvind's recruitment policies - by employing executives from outside the textiles industry. Including marketing and production specialists from the Indian subsidiaries of multinational companies.

But he admits it is not easy transforming Arvind, let alone the whole Indian textiles industry. "There are no short cuts. We must convince the clients through years of good service. That's what Japan had to do."

Bausch and Lomb Indian venture to make Ray-Ban sunglasses

By Shiraz Sidhu
in New Delhi

BAUSCH and Lomb India, a joint venture between the Indian Bhai Manjit Singh group and the US eyecare company, yesterday formally inaugurated India's first integrated plant to manufacture eyecare products, including Ray-Ban sunglasses, at Bhiwadi in Rajasthan.

The plant, with an investment of Rs200m (\$102m), is also Bausch and Lomb's first attempt at setting up an integrated optics plant, manufac-

turing on one site a range of eyecare products such as soft contact lenses, cleaning solutions, depolymers, metallic frames and Ray-Ban sunglasses.

The US company has a 39.9 per cent equity stake in Bausch and Lomb India, with an initial investment of \$1.1m. While the agreement was signed in 1990, test marketing for the products began in June this year.

The company is the first to introduce ready-to-wear soft contact lenses into the Indian market - lenses would

otherwise be made to order.

The joint venture is part of Bausch and Lomb's plan to establish itself in markets in different parts of the world, where the market for contact lenses and other eyecare products is underdeveloped.

In the past few years, Bausch and Lomb has begun developing the untapped markets of Turkey, China, Malaysia, Indonesia and Venezuela.

Mr Daniel E. Gill, chairman and chief executive of Bausch and Lomb, said that the Indian venture is a logical extension of this globalisation.

FT COMMENT TRAVELS THE WORLD

MFC Mortgage Funding Corporation No.4 PLC
(Incorporated in England and Wales with limited liability under registered number 2133465)

Dual-Class Mortgage Backed Floating Rate Notes Due 2035

Class A-1 £100,000,000
Class A-2 £100,000,000

For the interest period 30th October, 1992 to 29th January, 1993 the Class A-1 notes will bear interest at 7.75% per annum. Interest payable on 29th January, 1993 will amount to £1,292.39 per £65,000 note. The Class A-2 notes will bear interest of 8.175% per annum. Interest payable on 29th January, 1993 will amount to £2,038.15 per £100,000 note.

Bankers Trust Company, London Agent Bank

Tokyo Seimitsu acquisition

By Emilio Terrazono in Tokyo

TOKYO Seimitsu, a leading Japanese producer of semiconductor-manufacturing systems, has agreed to buy Silicon Technology, a US chip equipment maker.

Tokyo Seimitsu said it would pay \$14m for Silicon Technology, which has annual sales of \$5.6m. The move is part of the trend for Japanese companies to expand overseas amid the current slump in the Japanese semiconductor market. Many Japanese chip equipment mak-

ers are eager to acquire new technology from US companies. Mr Yasuo Komatsu, chief executive of Tokyo Seimitsu, said the acquisition would expand its US distribution network and develop products with Silicon Technology. Silicon Technology also has a distribution network in eastern Europe and Russia, which Tokyo Seimitsu hopes to use.

BARCLAYS INVESTMENT FUNDS (LUXEMBOURG)
Société d'investissement à Capital Variable ("the Company")

Registered Office:
Centre Mercator, 7th Floor, 41, avenue de la Gare,
L-1411 Luxembourg, RC Luxembourg 31409

NOTICE OF ANNUAL GENERAL MEETING

The Annual General Meeting of Shareholders is to be held at the registered office of the Company on Monday, 16th November 1992 at 1.30 pm (or as soon thereafter as it may be held) for the following purposes:

- To receive and adopt the Directors' Report of the Company for the period to 31st July 1992.
- To receive and adopt the Statement of Net Assets and the Statement of Operations for the period to 31st July 1992.
- To grant a discharge to the Directors in respect of their duties for the period ended 31st July 1992.
- To grant a discharge to the Auditors in respect of their duties for the period ended 31st July 1992.
- To elect Messrs Daniels, de Montis, Parry and Williams as Directors of the Company.
- To re-appoint Messrs Price Waterhouse as Auditors.
- Miscellaneous.

Voting
Shareholders are advised that in accordance with the Articles of Incorporation the Annual General Meeting of Shareholders will require a quorum of 10% of the shares outstanding.

In order to vote at the meeting the holders of shares must deposit their shares not later than 13th November 1992, either at the registered office of the Company, or with any bank or financial institution acceptable to the Company, and the relative Deposit Receipt (which may be obtained from the registered office of the Company) must be forwarded to the registered office of the Company to arrive not later than 13th November 1992. The shares so deposited will remain blocked until the day following the meeting or any adjournment thereof.

The holders of registered shares need not deposit their certificates but can be present in person or represented by a duly appointed proxy.

Shareholders who cannot attend the meeting in person are invited to send a duly completed and signed proxy form to the registered office to arrive not later than 13th November 1992. Proxy forms will be sent to the registered office with a copy of this Notice and can be obtained from the registered office.

The Board of Directors

Some ideas were never meant to fly.

But the Toshiba GTO Thyristor was meant to run. And run it does on many European railways.

The GTO Thyristor is a small, lightweight silicon wafer that has the huge task of converting energy efficiently - which it does - on the TGV, the ICE and even the Transmanche super trains.

It is just one way Toshiba semiconductor technology is helping people keep their ideas on the right track. And not just as a flight of fancy.

In Touch with Tomorrow
TOSHIBA

GTO Thyristor

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Call 071-873 4211 Fax 071-873 3084

DATED this 4th day of November, 1992.

THE ROYAL TRUST COMPANY
Lawrence Johnson
Secretary

Handwritten signature: [Illegible]

INTERNATIONAL COMPANIES AND FINANCE

PepsiCo to make \$16m expansion in Greece

By Kerin Hope in Athens.

PEPSICO, the US soft drinks maker, is expanding in Greece through the acquisition of Best Foods, a northern Greek manufacturer of snacks, for a reported Dr3.2bn (\$16m).

Best Foods, based in Thessaloniki, produces corn curls and other snacks for the local market. Sales this year are projected to rise from Dr1.7bn to Dr2.5bn with profits increasing from Dr80m to Dr250m.

The acquisition was made through 7-Up Netherlands, a European subsidiary of PepsiCo. Earlier this year, PepsiCo took control of Tasty Foods, another Greek snack manufacturer, following the merger of the US company's European operations with General Mills.

PepsiCo entered the Greek market three years ago with the takeover of Ivi, a struggling Athens bottler which produced Pepsi Cola and 7-Up, together with local soft drink brands and mineral water.

After cutting losses in 1991 to Dr2.6bn, down from Dr4bn the previous year, PepsiCo-Ivi expects to make a modest profit this year. It plans to invest Dr7bn in the next two years on modernising production and strengthening distribution, notably among the Aegean islands.

Although sales are up by around 6 per cent this year, PepsiCo-Ivi's share of the Greek soft drinks market has remained at around 18 per cent. However, Loutraki Water, the company's leading brand, claims to have increased its share of Greece's growing mineral water market to 35 per cent.

Job-cut costs keep Dofasco in the red

By Robert Gibbins in Montreal

DOFASCO, Canada's biggest steelmaker, blamed lower shipments and high staff severance costs for a third-quarter loss of C\$14.7m (US\$11.5m), or 27 cents a share. This compares with a loss of C\$10.1m, or 24 cents, a year earlier.

Steel price pressures and a four-week shutdown at the company's iron ore mines in Quebec added to the loss. Overseas shipments were off sharply in the quarter, and revenues dipped 6 per cent to C\$468m.

The nine-month loss was C\$92.2m compared with C\$23.5m a year earlier. Dofasco expects the fourth quarter to be slow, although flat-rolled products are showing some improvements.

Royal Trust down C\$243m

By Bernard Simon in Toronto

ROYAL TRUST, the Canadian financial services group, hopes to shake off financial problems which have dogged it in recent years with a package of measures which include a deep dividend cut, an equity issue and a special loan-loss reserve.

The Toronto-based company said all its operations, with the exception of those in the UK, were profitable.

But write-downs on discontinued operations and the new bad-debt provision pushed the company to a third-quarter loss of C\$243m (US\$195m), or C\$1.68 a share, compared with earnings of C\$33m, or 10 cents, a year earlier.

Third-quarter earnings include a write-down of C\$73m on the investment in Pacific First. However, Royal said the

sale would strengthen its capital base by C\$135m, lifting its capital-to-assets ratio from 9.4 per cent to 12 per cent.

The quarterly dividend has been halved to 5 cents a share and the board has approved a C\$200m equity issue. Terms of the issue will be announced later, but Royal said its controlling shareholder, Trilon Financial, had agreed to take up its share.

Royal and Trilon are controlled by the Toronto branch of the Bronfman family.

The special C\$150m provision is designed to cushion the company against loan losses "in the event of a further decline in economic conditions".

Telefonica of Argentina thrives

By John Berham in Buenos Aires

TELEFONICA de Argentina, Argentina's largest privatised telephone company, has almost doubled its profits, according to Mr Jose Bustamante, the company's president.

He said preliminary figures showed an 88 per cent rise in net income to \$22m for the year to September, against \$11.8m in 1991. He added that sales rose more slowly, to \$1.63bn against \$1.037bn last year.

Telefonica, which is managed by Telefonica

Internacional, an arm of Spain's state-owned telephone company, was privatised in November, 1991. It has a monopoly on services to the southern region of Argentina, including half of Buenos Aires, for at least seven years.

Profits have climbed due to indexation of rates and an exchange rate that further magnifies profits. However, the 1991 figures are slightly understated because they cover an 11-month accounting period.

Telefonica, like Telecom Argentina, the smaller privatised company which

covers the northern half of the country, has also raised profits by tightening up management, sacking employees and rapidly installing more lines. But, despite high charges and aggressive investment policies, service remains mediocre.

Telecom, which has not made any preliminary statement on its 1992 performance, is expected to report an even stronger rise in net income. Telecom's profits rose to \$117.3m in the first three quarters of the year on sales of \$862m, against \$63.3m in the 11 months to September 1991 on sales of \$800m.

Arab bank nearly doubles profits

ARAB Banking Corporation (ABC), the biggest Arab bank, has nearly doubled net profit for the first nine months of 1992, Reuter reports from Manama.

The bank, traded on the Bahrain and Paris bourses, said profit after estimated taxes rose to \$80m in the period from \$31m the year before.

Mr Abdullah Saudi, chief executive, attributed the rise in the net to a lower cost of funds, lower taxes, expanded business in trade financing and the recovery of some \$20m in interest that had not been paid

on loans to Argentina. He said unaudited operating profits rose 36 per cent to \$183m from \$135m. It boosted the provisions it was making for bad loans to \$98m from \$53m.

After \$6m for minority interests in subsidiaries such as Banco Atlantico in Spain, pre-tax profits showed an increase of 22 per cent to \$79m.

Despite the higher pre-tax profit, estimated taxes fell to \$19m from \$34m because the branches with little or no tax did relatively better than heavily taxed units in Europe.

Lower interest rates also meant it was less costly to fund non-performing loans. The bank remained cautious about new lending, total loans and advances rising modestly to \$11.2bn at the end of September from \$10.6bn a year earlier.

Total assets rose to \$20.8bn from \$19.6bn. Total deposits rose to \$16.6bn from \$16.1bn.

Besides the shares held by the public, the bank is owned by the Emirate of Abu Dhabi, the Libyan Treasury and the Kuwaiti Finance Ministry.

Chilean telecoms group considers \$150m issue

By Leslie Crawford in Santiago

COMPANIA de Telefonos de Chile, the Chilean telecommunications company quoted on the New York Stock Exchange, may place between \$150m and \$200m of convertible bonds in US and European financial markets.

Claudio Garcia, CTC's financial vice-president, said the company's board would meet this week to consider the bond issue. "They will be 10-year bonds convertible into shares after the third year, but we have not yet fixed the coupon they will carry," Mr Garcia said.

Goldman Sachs is to manage the placement, and CTC's present shareholders are to be given first option in taking up the offer. Telefonica de Spain owns a controlling 46 per cent stake in CTC.

CTC is the main local telephone company in Chile and controls a sizeable portion of the long-distance and cellular telephone market. The bond issue would help finance CTC's \$500m investment outlays planned for 1993, as well as reduce borrowings.

The company posted an accumulated net income of 46,270 pesos (\$123m) for the first nine months of 1992.

Moody's opens office in Spain

MOODY'S Investors Service, the US rating agency, has extended its European operations with the creation of a subsidiary in Spain, writes Richard Waters.

The agency, which already has operations in London, Paris and Frankfurt, has maintained its practice of opening offices from scratch rather than forming joint-ventures with local agencies, a method favoured by its rival, Standard & Poor's.

The new office was prompted in part by recent legislation which will make securitisation easier for Spanish borrowers, said Mr Jan Konstanty, managing director of Moody's in London.

Du Pont faces tough test of fibre

Paul Abrahams examines the potential buyers of its carpet capacity

DU PONT'S swap of chemical assets with Imperial Chemical Industries, which was given the green light last month by the European Commission, could provide a few headaches for the US group.

A condition of the deal was that Du Pont dispose of 12,000 tonnes of newly-acquired nylon carpet fibre production.

Du Pont says it has already had a couple of unsolicited expressions of interest about the capacity, but given the sorry state of the west European carpet fibres industry, it is far from clear how serious these might be.

Falling demand and substitution by other materials, in particular polypropylene, has led to gross over-capacity among carpet fibre manufacturers. Nylon carpet fibres come in two types. The most common is continuous filament, while the other is discontinuous or staple fibre. ICI's former plant at Oestringen, in Germany, which manufactures both types, is the most likely candidate for disposal, although Du Pont says the final decision is yet to be made.

European capacity currently exceeds demand. Sales of carpet filament last year were 164,000 tonnes, compared with a capacity of 230,000 tonnes. Meanwhile, demand for staple fibre was only 138,000 tonnes, compared with a capacity of 180,000 tonnes, according to the Brussels-based International Committee of Rayon and Synthetic Filament (ICRFS). About 70 per cent of production is used in carpets.

Europe is a net exporter of both types, but has little chance of reducing over-capacity by raising sales abroad.

WESTERN EUROPEAN NYLON PRODUCERS		
Company	Market share %	
Bulk Continuous Filament		
Du Pont	21	
Snia/Rhone Poulenc	18	
Beaulieu	12	
Aqualit	11	
ICI	10	
Allied-Signal	9	
Radici	9	
Alzco	8	
Others	2	
Polyamide Staple Fibre		
ICI	35	
Snia/Rhone Poulenc	22	
Du Pont	20	
Others	17	

Source: ICI

ICI reported from the US

says Mr Jean-Louis Juvet, director-general of ICRFS. "The fall in demand has been created not just by consumers putting off purchases. Large groups, such as department stores, are not replacing floor coverings," says Mr Stan Davies, an independent consultant. Demand in the automotive market is also depressed. Meanwhile, although nylon has 39 per cent of the fibre market for textile floor-coverings, polypropylene has captured 36 per cent and is shortly expected to overtake nylon. In addition, nylon is under competition from cheap wool.

Operating rates in the nylon carpet fibres industry remain terrible, says Mr Juvet. In filament, only 74 per cent of capacity was running last year, while staple production was running at 69 per cent. Analysts believe no European nylon carpet fibre manufacturer is making money. Casting around for possible

purchases of Du Pont's surplus nylon fibre production, analysts have come up with France's Rhone-Poulenc. The group has just merged with Snia of Italy to form a joint-venture which has about 15 per cent of the European continuous filament market and about 30 per cent of the European staple fibre market.

However, Rhone-Poulenc is in the middle of an asset disposal programme aimed at cutting borrowings by FF600m (\$64m) this year. The group's target is to reduce its debt to equity ratio from 0.78 at the end of last year to close to 0.5 in 1993.

Other candidates include Germany's BASF. The group has substantial carpet fibre operations in the US, with four plants and an annual capacity of 100,000 tonnes a year. It has no production in Europe and might be interested in creating a global presence.

Alzco, the Dutch company, is another possibility. The group has limited nylon carpet capacity. However, Mr Syb Bergema, a member of Alzco's management committee, said in August that its carpet operations were unprofitable. The company is reducing production and cutting 240 jobs. Analysts expect Alzco to pull out of the market, if it can find a buyer.

Small to medium-sized candidates include Beaulieu of Belgium, which has about 12 per cent of the continuous filament market, and Aqualit and Radici, both of Italy, which respectively have 11 per cent and 9 per cent of the west European market.

Further potential buyers include actual carpetmakers. Mr Davies believes German

carpet companies might group together to make a bid. This would free them from the threat of Du Pont's potentially dominant position.

However, the commission would need to be convinced of the need to sell to the carpet makers. Competition officials indicated last week that the capacity and related facilities should be sold to a single competitor, which ought to be a fibres manufacturer.

A further possibility is a management buy-out by former ICI fibres marketing employees, says Mr Davies. Their jobs would be most vulnerable in the event of rationalisation, he explains.

Outside the EC, the most likely is Allied Signal, one of the US's largest industrial groups. It already imports fibres equivalent to about 9 per cent of European filament market. And this summer it started a significant expansion of its industrial fibres operations with construction of a new \$220m plant in France.

But some analysts believe it may prove difficult for Du Pont to find a buyer at all. The group has undertaken to make "best endeavours" to dispose of the 12,000 tonnes within 12 months of the completion of its deal with ICI. Analysts, however, are far from convinced anybody would want to expand their share of the market at the moment.

If Du Pont fails to find a buyer, the commission says it will extend the deadline. But the US group may end up with all of ICI's fibres capacity in spite of the best efforts of Sir Leon Brittan, the commission's vice-president, and his trust-busters.

All of these securities having been sold, this announcement appears as a matter of record only.

November, 1992
Concurrent Worldwide Offering10,610,000 Shares
Life Re CorporationCommon Stock
(\$.001 par value)

Price \$22 Per Share

This portion of the offering was offered outside the United States and Canada by the undersigned.

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£150,000,000
Floating Rate Notes due 1996
For the three months 30th October, 1992 to 29th January, 1993 the Notes will carry an interest rate of 7.6875% per annum with an interest amount of £95.83 per £100,000 Bond, payable on 29th January, 1993.
Listed on the London Stock Exchange
Bankers Trust Company, London Agent Bank

HALIFAX
BUILDING SOCIETY
£250,000,000
Floating Rate Notes Due 1997
In accordance with the provisions of the Notes, notice is hereby given that, for the six month period 2nd November, 1992 to 4th May, 1993, the Notes will bear interest at the rate of 7.1041 per cent. per annum. Coupon No. 5 will therefore be payable on 4th May, 1993, at £1,780.89 per coupon from Notes of £50,000 nominal and £356.18 per coupon from Notes of £10,000 nominal.
S.G. Warburg & Co. Ltd.
Agent Bank

NOTICE
to the holders of outstanding U.S. \$30,000,000
1 1/2 per cent. Convertible Bonds Due 2002
of
Goldstar Co., Ltd.
(the "Bonds" and the "Company" respectively)
NOTICE IS HEREBY GIVEN to the holders of the Bonds that, as a result of the issue by the Company 3,640,200 common stock of the Company described in the Notice given to the holders of the Bonds on 21st February, 1992, the existing Conversion Price per share of common stock of the Company has, pursuant to the provisions of the Trust Deed constituting the Bonds, been adjusted from W29.597 to W29.551 with effect from 5th June, 1992.
6th November, 1992
Goldstar Co., Ltd.

INTERNATIONAL CAPITAL MARKETS

US Treasuries regain ground in pre-poll calm

By Patrick Harverson in New York and Sara Webb in London

US TREASURY prices yesterday regained ground lost on Monday as investors calmly awaited the outcome of the presidential election.

By midday, the benchmark 30-year government bond was up 1/8 at 95 1/2, yielding 7.62 per cent. The two-year note was also notably firmer at mid-session, up 1/4 at 98 1/2, yielding 4.38 per cent.

Traders said turnover was light as many participants sat out polling day. Although final opinion polls predicted a victory for Mr Bill Clinton, the market had already discounted a Democratic win.

There was no particular spark for the morning's gains. The day's only economic news - a 0.3 per cent decline in September leading indicators - was mildly positive for the market. The data suggested the economy is still moving sideways rather than forward, as would be expected at this stage of the economic cycle.

Uncertainty over the size of the next quarterly refunding programme - due to be announced later in the day - was a factor for the second consecutive session. Analysts expect the Treasury to increase the package to about \$37bn, up from \$36bn in August, to account for the government's greater borrowing needs.

UK government bonds ended firmer, helped by sterling's strength against the D-Mark in the foreign exchange markets and a slightly improved political background concerning the outcome of today's Maastricht debate.

The pound closed at DM2.42, down from DM2.4030, lending a firmer tone to gilt prices. On the political front, the government would be unable to muster a majority in the House of Commons today.

The 11 1/2 per cent gilt due 2003/07 rose from Monday's close of 120 1/4 to trade at 120 1/2 by late afternoon.

German government bonds ended slightly firmer, but activity was subdued as market participants awaited the US presidential election result. The 11 1/2 per cent futures contract opened at 91.33 and dipped to a low of 91.31 before recovering to end at around 91.47, the high of the day. Most of the interest was concentrated in the five-year sector of the market again, dealers said.

Dealers said the market shrugged off statements by Mr Helmut Schlesinger, Bundes-

bank president, who warned that further German rate cuts depended on slower money supply growth. He added that moves on German rates depended on further cuts in the budget deficit and on wage levels in the 1993 pay round.

Elsewhere in Europe, French government bonds strengthened, following Monday's quarter-point cut in the key interest rates. The Treasury is due to auction the FF14bn and FF18bn of government bonds tomorrow.

On the Matif futures exchange in Paris, the December bond futures contract closed at 110.90, up 0.18 from late on Friday. The yield on the 8 1/2 per cent bond due 2002 was unchanged from Monday at 8.17 per cent.

The Treasury said it would offer FF14bn-16bn of tap stock at its regular monthly auction tomorrow when it plans to sell the 8 1/2 per cent bond due 2003 and the 8 1/2 per cent bond due 2008.

New York's Commodity Exchange today due to open its trading hours two hours earlier than usual, writes Laurie Morse in Chicago. Trading in the Pan-European index will commence at 5.30am EST, although the closing time of 4.15pm will not be altered.

The Comex, better known for its gold and silver futures contracts, opened futures

BENCHMARK GOVERNMENT BONDS

Coupon	Red date	Price	Change	Yield	Week ago	Month ago
AUSTRALIA 10.000	10/02	107.1888	+0.230	8.50	8.56	8.50
BELGIUM 8.750	06/02	104.0000	+0.270	8.12	8.14	8.13
CANADA * 8.500	04/02	105.1000	-0.250	7.73	7.88	7.88
DENMARK 8.000	11/05	103.9500	+0.400	6.83	6.75	6.73
FRANCE 8.000	03/07	101.2400	-0.030	8.12	8.19	8.13
GRAT. OTAN 8.500	11/05	102.2400	+0.080	8.15	8.21	8.13
GERMANY 8.000	07/02	104.2500	+0.180	7.36	7.35	7.38
ITALY 12.000	05/02	93.1500	-0.080	13.71	13.89	14.18
JAPAN 4.000	09/98	100.9961	-	4.81	4.70	4.84
UK No 145	6.500	03/02	103.3101	+0.003	4.68	4.75
NETHERLANDS 8.250	06/02	104.5200	+0.060	7.56	7.58	7.74
SPAIN 10.300	06/02	87.2000	+0.300	12.64	12.40	12.43
UK GILTS 10.000	11/05	103.21	-	7.19	7.10	6.82
8.750	06/02	103.21	-	8.57	8.19	8.08
8.000	10/05	102.10	-	8.73	8.75	9.28
US TREASURY * 6.575	06/02	99.20	+0.322	6.85	6.78	6.28
6.250	06/02	99.20	+0.322	7.05	7.07	7.25
ECU (Fresh Govt) 8.500	03/02	97.6500	-0.300	8.67	8.50	8.34

London dealing, *denotes New York morning session
† Gross annual yield (including withholding tax at 12.5 per cent based on par) by non-resident

Prices: US, UK in \$mnds, others in decimal

Techical Details/ATLAS Price Sources

London closing, "Selected New York morning session" (Yield: Local market standard 7 Gross annual yield (including withholding tax at 12.5 per cent payable by non-residents). Prices: US, UK in 32nds, others in decimal. Technical Data/ATLAS Price Services

FT FIXED INTEREST INDICES

	Nov 3	Nov 2	Oct 30	Oct 29	Oct 28	Year	Low
Bank Secs	94.00	92.76	94.44	94.36	94.18	94.36	94.11
Fixed Interest	107.73	107.91	108.59	108.33	107.71	108.33	97.15

Base: 100 Government Securities 15/10/92; Fixed Interest 1992. For 1992: Government Securities high since 1972 (127.45), low 87.15; Fixed Interest high since 1972 (108.33), low 97.15.

GILT EDGED ACTIVITY

	Nov 2	Oct 30	Oct 29	Oct 28	Oct 27
Gilt Edged Surplus	250.9	268.7	253.0	238.5	206.8
5-day average	238.9	232.5	216.1	197.9	191.4

trading on the Eurpote 100 on October 26 and volume so far has averaged just 1,000 contracts a day.

Mr David Halperin, Comex president, said the earlier trading hours were expected to maximise the overlap between the futures market and the period in which most of the underlying European stock markets were open.

'Soft' commission deals set to spill into Europe

By Richard Waters

SO-CALLED "soft" commission arrangements, which have become increasingly commonplace in the equity market, are about to spill over into European bond markets following a recent ruling from regulators in London.

Investors have traditionally not paid commissions on bond trades. As a result, the development is likely to prompt concern among some fund managers' clients about whether their interests are being harmed.

Soft commissions arrangements involve brokers refunding part of the commissions they receive to a fund manager in the form of services.

Specific guidance on how these arrangements should work in fixed income markets

was only given to certain brokers a fortnight ago by the Securities and Futures Authority, a self-regulatory organisation in London.

According to the SFA, brokers can issue contract notes to their fund manager clients showing a single net price, including the broker's own mark-up, or "commission". However, the broker must send a complete statement at least once a month detailing its own commissions, and this has to be shown to the fund manager's client.

Hoening, part of the US soft commission group, and Thamesway, owned by BZW, have now both begun marketing soft commission services to bond investors. A third house, Tiedemann Investment Research, is understood to have been

offering similar services in London for some time, though its president, Mr Nicholas Bullman, refused to comment yesterday.

Hoening said that fund managers' clients would not be harmed by the development, since fund managers would only be able to deal if the soft commission broker offered a price which was at least as good, after adding in its own "commission", as that quoted by at least two other market-makers.

Thamesway said that the extra service provided by an independent broker would justify the "commission" involved.

"As bonds have been a principal market to date, it is very important to do - and be seen to do - a proper agency job," said Ms Karen Morgan Thomas of Thamesway.

French bonds see more rate cuts

By Sara Webb

THE Bank of France took the bond market by surprise with its decision to cut official interest rates on Monday.

However, given the stability of the French franc in the wake of the cuts, many bond market analysts believe there is scope for a further easing in French interest rates within the next few weeks, even without a simultaneous reduction in German rates by the Bundesbank.

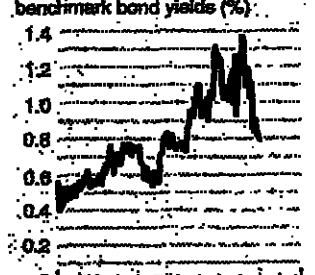
Hopes of a further interest rate cut are expected to boost the French government bond market and economists are predicting a narrowing in the French-German yield spread over the next couple of months.

Last week, the Bank of France lowered its five-to-10 day repurchase rate to 10.5 per cent from 13 per cent. That reversed a rise in the middle of September, when the franc came under considerable speculative pressure. By lowering the rate to 10.5 per cent, the Bank of France was seen as signalling an end to the currency crisis.

Whereas the markets had expected the return of the five-to-10 day repurchase rate to its

Yield spread

French minus German 10-year benchmark bond yields (%)



pre-crisis level, Monday's announcement - of a cut in the repurchase rate to 10.5 per cent and a quarter point cut in the intervention rate to 9.35 per cent - came as a surprise.

"The franc has held up extremely well since the cut," said Ms Marie Owens Thomson, international economist at Midland Montagu.

The franc traded at 3.880/83 to the D-Mark yesterday, and Ms Owens Thomson predicts it will appreciate further to reach 3.87 by the end of the year.

She believes the Bank of France is allowing call money rates, currently at 9.5 per cent, to slip lower, testing the

franc's ability to hold up in the foreign exchange markets and making room for a small cut in official interest rates.

"If the central bank allows market interest rates to fall and the franc holds up, we could see another cut in the official interest rates," she said.

However, such a cut is likely to be limited to about 25 basis points, said Mr George Magnus, international economist at S.G. Warburg Securities - though if the Bundesbank cuts its key interest rates soon, the Bank of France would have scope for a bigger easing.

Mr Adrian James, economist at NatWest Capital Markets, predicts the 10-year French-German yield spread will fall from the current 79 basis points to 50 basis points over the next 12 months, given the strong economic fundamentals in France.

Inflation at 2.6 per cent is well below German levels, and economic growth of 2 per cent is forecast for this year.

While political concerns are likely to come to the fore in the run-up to the general election next March, the immediate prospects for the bond market appear favourable.

Rumours surface of jumbo Swedish issue

By Brian Bollen

RUMOURS about a further jumbo borrowing by the Kingdom of Sweden, this time in US dollars, dominated the international bond market yesterday.

The talk is that the next stage of the country's borrowing programme could be for up to \$2bn over five years under a global programme, at a spread of between 50 and 60 basis points over comparable US Treasury bonds.

"It's a question of when rather than if," said one banker. "But you could say the

same of several sovereigns." Rarity was a key word among the new issues which emerged. The quality-sensitive Swiss market is pausing to catch its breath after the first Euro-style guileless issues for a month was rapidly increased from FF250m at launch, reflecting a general shortage of longer term new issue paper.

Lead-manager UBS described BMW Finance, which is raising SF150m through an eight-year public issue, as an attractive name with scarcity value with particular appeal to retail investors. Other banks said the issue was more aggressively priced than the quality marks, although the rarity value helped it trade within fees in the grey market.

Also described as having rarity value was the FF300m

eight-year issue from Akzo, the Dutch chemicals and pharmaceuticals company, which has been absent from the market for several years. Led by Rabobank Nederland, the first Euro-style guileless issue for a month was rapidly increased from FF250m at launch, reflecting a general shortage of longer term new issue paper.

Some traders were slightly surprised at the DM100m 10-year reverse floating-rate note for Deutsche Genossenschaftsbank Hypothekbank. They would expect such transactions to be for smaller amounts and to be done privately rather than publicly because they are normally targeted to specific investors. The interest rate will be fixed at 10 per cent for the first two

years, and thereafter at 21 per cent minus twice six-month Libor.

High interest rates, exchange controls and EMS turmoil are among obstacles hindering significant expansion of the Spanish fixed income market, though it shows promise, Standard & Poor's writes in its weekly newsletter, *Reuter reports*.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
AKZO	100	(a)	101.25	2002	-	DG Bank
AKZO	300	8	100.73	2002	1/4 %	Rabobank Nederland
BMW Finance	150	6.25	102.125	2000	-	UBS

Final terms and non-callable unless stated. (a) Floating rate note. (b) Coupon pays 10% fixed for first two years and 21% - 2 x 6-month Libor thereafter.

MARKET STATISTICS

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	68	1	9
Other Fixed Interest	376	149	870
Commercial, Industrial, Financial & Property	276	71	457
Oil & Gas	17	9	59
Plantations	2	2	5
Minerals	39	34	74
Others	68	13	38
Totals	849	279	1,550

LONDON RECENT ISSUES

Issue	Amount	Price	Yield	Stock	Closing
100 F.F.	100	101.25	8.12	100	101.25
100 F.F.	100	101.25	8.12	100	101.25
100 F.F.	100	101.25	8.12	100	101.25
100 F.F.	100	101.25	8.12	100	101.25
100 F.F.	100	101.25	8.12	100	101.25
100 F.F.	100	101.25	8.12	100	101.25
100 F.F.	100	101.25	8.12	100	101.25
100 F.F.	100	101.25	8.12	100	101.25
100 F.F.	100	101.25	8.12	100	101.25
100 F.F.	100	101.25	8.12	100	101.25

FIXED INTEREST STOCKS

Issue	Amount	Price	Yield	Stock	Closing
100 F.F.	100	101.25	8.12	100	101.25
100 F.F.	100	101.25	8.12	100	101.25
100 F.F.	100	101.25	8.12	100	101.25
100 F.F.	100	101.25	8.12	100	101.25
100 F.F.	100	101.25	8.12	100	101.25
100 F.F.	100	101.25	8.12	100	101.25
100 F.F.	100	101.25	8.12	100	101.25
100 F.F.	100	101.25	8.12	100	101.25
100 F.F.	100	101.25	8.12	100	101.25
100 F.F.	100	101.25	8.12	100	101.25

RIGHTS OFFERS

Issue	Amount	Price	Yield	Stock	Closing
100 F.F.	100	101.25	8.12	100	101.25
100 F.F.	100	101.25	8.12	100	101.25
100 F.F.	100	101.25	8.12	100	101.25
100 F.F.	100	101.25	8.12	100	101.25
100 F.F.	100	101.25	8.12	100	101.25
100 F.F.	100	101.25	8.12	100	101.25
100 F.F.	100	101.25	8.12	100	101.25
100 F.F.	100	101.25	8.12	100	101.25
100 F.F.	100	101.25	8.12	100	101.25
100 F.F.	100	101.25	8.12	100	101.25

TRADITIONAL OPTIONS

Issue	Amount	Price	Yield	Stock	Closing
100 F.F.	100	101.25	8.12	100	101.25
100 F.F.	100	101.25	8.12	100	101.25
100 F.F.	100	101.25	8.12	100	101.25
100 F.F.	100	101.25	8.12	100	101.25
100 F.F.	100	101.25	8.12	100	101.25
100 F.F.	100	101.25	8.12	100	101.25
100 F.F.	100	101.25	8.12	100	101.25
100 F.F.	100	101.25	8.12	100	101.25
100 F.F.	100	101.25	8.12	100	101.25
100 F.F.	100	101.25	8.12	100	101.25

FT-SE ACTUARIES INDICES

Index	Value	Change
FT-SE 100	128.29	+0.15
FT-SE 250	145.82	+0.25
FT-SE 350	151.49	+0.23
FT-SE 450	167.77	+0.19
FT-SE 550	174.17	+0.21
FT-SE 650	181.87	+0.21
FT-SE 750	189.57	+0.21
FT-SE 850	197.27	+0.21
FT-SE 950	204.97	+0.21
FT-SE 1050	212.67	+0.21

The FT-SE 100, FT-SE 250 and FT-SE Actuaries 350 indices and the FT-SE Actuaries 450, 550, 650, 750, 850 and 950 indices are calculated in accordance with a standard set of ground rules established by The Financial Times Limited and London Stock Exchange in conjunction with the Institute of Actuaries and the Faculty of Actuaries.

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LIFFE FUTURES OPTIONS

Option	CALLS						PUTS						Option	CALLS						PUTS					
	Dec	Jan	Feb	Mar	Apr	Jul	Dec	Jan	Feb	Mar	Apr	Jul		Dec	Jan	Feb	Mar	Apr	Jul						
AHL Lymex	600	52	63	74	17	27	38	BAA	750	22	47	60	20	36	Glass	800	85	90	107	20	42	50			
ASD	600	52	63	74	17	27	38	BAA	750	22	47	60	20	36	Glass	800	85	90	107	20	42	50			
ASD	600	52	63	74	17	27	38	BAA	750	22	47	60	20	36	Glass	800	85	90	107	20	42	50			
ASD	600	52	63	74	17	27	38	BAA	750	22	47	60	20	36	Glass	800	85	90	107	20	42	50			
ASD	600	52	63	74	17	27	38	BAA	750	22	47	60	20	36	Glass	800	85	90	107	20	42	50			
ASD	600	52	63	74	17	27	38	BAA	750	22	47	60	20	36	Glass	800	85	90	107	20	42	50			
ASD	600	52	63	74	17	27	38	BAA	750	22	47	60	20	36	Glass	800	85	90	107	20	42	50			
ASD	600	52	63	74	17	27	38	BAA	750	22	47	60	20	36	Glass	800	85	90	107	20	42	50			
ASD	600	52	63	74	17	27	38	BAA	750	22	47	60	20	36	Glass	800	85	90	107	20	42	50			
ASD	600	52	63	74	17	27	38	BAA	750	22	47	60	20	36	Glass	800	85	90	107	20	42	50			
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ASD	600	52	63	74	17	27	38	BAA	750	22	47	60	20	36	Glass	800	85	90	107	20	42	50			
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ASD	600	52	63	74	17	27	38	BAA	750	22	47	60	20	36	Glass	800	85	90	107	20	42	50			
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ASD	600	52	63	74	17	27	38	BAA	750	22	47	60	20	36	Glass	800	85	90	107	20	42	50			
ASD	600	52	63	74	17	27	38	BAA	750	22	47	60	20	36	Glass	800	85	90	107	20	42	50			
ASD	600	52	63	74	17	27	38	BAA	750	22	47	60	20	36	Glass	800	85	90	107	20	42	50			
ASD	600</																								

TIP Europe up 26% as interest charges fall

By Angus Foster

TIP EUROPE, the trailer rental company which was forced to refinance last year after breaching banking covenants, yesterday reported a 26 per cent increase in profits to 17,900 to reflect lower demand.

The average fleet was reduced by over 1,000 units to 17,900 to reflect lower demand. This helped maintain utilisation rates close to 75 per cent, while the company achieved price rises of 7 per cent. In the UK, rates increased 10 per cent to £11.83 a day.

In the general leasing division, falling used vehicle sales were more than made up by a £1m increase in profits from Mobil, which supplies temporary buildings.

Exceptional reorganisation and refinancing costs totalled £558,000 (£1.58m). The April sale of the group's truck rental division led to extraordinary charges of £960,000 (£2.93m).

Earnings fell 7.4 per cent to 3.9p, even after last year's figure was restated from 5.06p to 4.21p to reflect the rights issue.

TIP is proposing to cut its final dividend in line with the

slower growth in continental markets, especially Germany. Benelux failed to recover from a bad first quarter while profits in Denmark were wiped out by losses in Finland and Sweden.

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TIP is proposing to cut its final dividend in line with the

fall in earnings. A final of 0.76p is proposed, to make total dividends for the year of 1.4p, against 1.82p.

The shares fell 1 1/4p to 31p.

COMMENT

TIP deserves credit for squeezing profits from a business as hard hit as most, especially since the company's survival was in question less than a year ago. A new management team, a more cautious approach and reduced borrowings have all won applause in the City. But TIP is being forced to sell trailers to control costs. It will therefore benefit less when recovery comes - it will have to buy new trailers, which are less profitable in the first few years of operation.

In Russia's hard-pressed economy, cigarettes are regarded not as a health hazard but as socially benign. Demand heavily outweighs supply, giving them the status of a surrogate currency which, unlike the rouble, does not depreciate. Factories that produce cigarettes provide secure jobs and finance local community services.

The letters of intent signed in Moscow marked a further advance in BAT's long-term expansion strategy in the former communist republics - markets for a potential 700bn cigarettes a year, seven times larger than the UK.

BAT, which presents its third-quarter results today, established its first base in eastern Europe earlier this year when it agreed a joint venture deal with the state-owned cigarette factory at Pecs in Hungary. It is investing £20m in the operation over three years.

Two cigarette joint ventures are being set up in the Ukraine, at Prilky - where the factory supports two

BAT poised to light up new market

Philip Rawstone reports on the potential for its latest cigarette ventures in eastern Europe

THE FIRST snow of the Russian winter dusted the roofs of the Kremlin across the river from the Kempinski hotel where Sir Patrick Sheehy, chairman of BAT Industries, the UK-based tobacco conglomerate, recently opened formal negotiations for a joint venture with Moscow's largest cigarette factory.

At breakfast in the German-run hotel, Mr IN Ordjonikidze, deputy mayor of Moscow, and Mr LJ Sinelnikov, director of the Yava factory, warmly toasted with champagne the prospect of a deal that would modernise a small but important piece of the country's antiquated industry.

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Two cigarette joint ventures are being set up in the Ukraine, at Prilky - where the factory supports two

schools and a sports stadium - and Cherkassy, south of Kiev. BAT, which is helping to improve the republic's tobacco crop, is also talking about investing in a leaf processing plant at Monastirsk.

Apart from the Yava factory in Moscow, BAT's team has visited more than half of Russia's other 23 cigarette producers. At least two more joint ventures seem likely to follow; one near Moscow, another in Siberia.

Exploratory talks continue about possible developments in other former Soviet republics, and also in Poland, Bulgaria and Romania.

"The investments we are making are essentially long-term," says Sir Patrick. "We do not expect to be making significant profits for at least 10 years, possibly 25 years."

However, the Hungarian venture is already surpassing the group's most optimistic forecasts, Sir Patrick says.

"When we took over, we inherited a management geared to loss not profit, since that was the route to subsidy; a workforce rewarded not with cash but free accommodation and holiday homes; and a distribution network so inept that it took weeks to get cigarettes to the state monopoly shops to supply that it scarcely believed it could order what it wanted."

Pecs is now producing more cigarettes more economically than ever before. The factory, which previously supplied 40 per cent of Hungary's 27bn cig-

arettes a year, has profitably raised its market share to more than 50 per cent. Its Sobianne brand is the market leader.

"That was achieved not only by investing in new technology, but also by revolutionising the management of the business and so making more productive use of a willing, skilled, and highly educated

workforce."

But if the Pecs venture is beginning to show what rewards are possible, the practical obstacles to reaching even that stage of development remain immense.

There is a willingness to embrace free markets, says Sir Patrick, but a lack of institutions to make them work. Commercial law is inadequate, taxes are liable to unpredictable change, banking systems

are inefficient.

"In some places, it is virtually impossible to predict the course of official policy," he says.

In Czechoslovakia, where BAT competed against Philip Morris for control of the Tabak cigarette monopoly, the UK group was given three weeks to tender, a week to inspect the

factories, and a brief meeting with management. "It subsequently emerged that the privatisation ministry, in conjunction with its Japanese advisers, had already sewn up a deal with the Americans, and that our role was simply to make up the numbers."

Poland, in contrast, threw open its doors to every cigarette company that knocked on them. The market, as a result, is in total confusion.

The break-up of the Soviet Union and the transfer of power to individual republics has lengthened rather than reduced the bureaucratic process.

Central decision-making is now anathema. To clinch the Yava deal, BAT will have to secure the agreement of the 1,400 factory workers and management; but at the same time it will have to negotiate a labyrinth of city government rules and regulations.

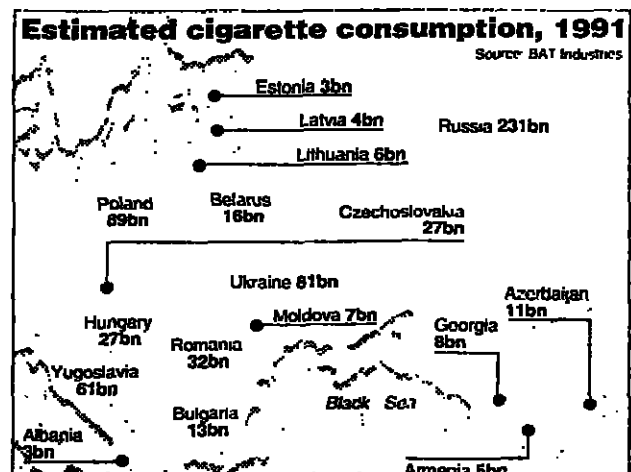
Merely valuing Yava's assets could be a bigger problem than any BAT may face in re-equipping the cramped five-storey pre-1915 factory, raising efficiency, and improving the quality of its output of 1.4bn cigarettes a year.

Russian officials welcome BAT's policy of maintaining and developing local brands; but until they can make up the shortfall in supply, the group is exporting its international brands from Germany, the UK, US, and Brazil.

BAT's German factories alone have exported 7bn cigarettes to eastern Europe since the Berlin Wall came down. Total BAT exports have surged in the first nine months of this year, running at nearly three times the volumes of a year ago.

Sales to Russia, hitherto largely dependent on barter deals, have been boosted by the government's decision earlier this year to allow any private trader with hard currency to import cigarettes.

Truckloads of Pall Mall, HB, Polyard, Kent, and Lucky Strike are now the currency in which many a domestic business deal is settled as well as a staple part of the retail trade.



Peregrine confirms 24% stake in Invesco

By Angus Foster

Peregrine, the Hong Kong securities house backed by some of the colony's most powerful businessmen, yesterday confirmed that on Monday it lifted its stake in Invesco MIM, the fund manager, from 14.9 per cent to just over 24 per cent.

Peregrine said that the stake would be held as an investment and that it had no intention of buying more shares "at this stage".

Invesco MIM said that both sides had been in regular contact. "We have every reason to believe their intentions are friendly."

Peregrine bought its latest tranche of shares at 77p. The shares were previously bought from Legal & General Investments and Daido Mutual Life.

Invesco's shares, which added 9p to 84p on Monday, gained a further 4p to 88p yesterday.

£2.8m acquisition by Prime People

PRIME PEOPLE, the Manchester-based human resources group, is to acquire Bowford Engineering Services for £2.8m and meet part of the consideration via a rights issue.

Bowford has six skills training centres throughout the UK. Consideration will be met by the allotment to vendors of 31m shares at 4 1/2p, payment of £1.07m cash and the issue of £387,500 loan notes. The vendors, Mr Geoff Bowers and Mr John Ashford, will control a maximum 38.2 per cent of the Prime capital, and shareholders will need to approve the deal.

The rights will be on the basis of 1-for-3 at 4 1/2p each, and raise £390,000 before expenses. There will also be issued up to 2.5m warrants at the rate of 1-for-5 shares, entitling subscription to one share on March 31 in the years 1993-96 inclusive.

For the year ended October 31 1992 Bowford is forecast to make pre-tax profits of £395,000, compared with £1m. The decline is largely attributable to costs incurred in preparing two projects for the Ministry of Defence and Mobil.

Results from USM-quoted Prime for the half year ended June 30 show a loss of £161,000 (£121,000 after exceptional costs of £39,000) from turnover of £431,000 (£395,000). Losses per share were 0.01p (1.5p).

Mezzanine Capital and Income Trust 2001 had a net asset value per income share of 109.5p (105.7p) and per capital share of 173.5p (133.5p) at March 31. Pre-tax profits for the year to end-March were £1.17m (£1.74m) and earnings per income share 5.22p (7.78p). Interim dividend is 5p (7.25p).

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Gloomy Frederick Cooper halves dividend

By Paul Cheswright, Midlands Correspondent

FREDERICK COOPER, the West Midlands-based group with interests in architectural hardware, specialist coatings and electrical products, is halving its total dividend in acknowledgement that there would be no rapid end to the recession.

"We are taking the view that there will not be any improvement until spring 1994 - we're running the business on that

basis," said Mr Ed Kirk, chairman, as he unveiled pre-tax profits down from £3.1m to £3.4m for the year to July 31.

The outcome was struck after an exceptional credit of £165,000 (charge of £368,000) as reorganisation costs were offset by a £200,000 surplus on the winding-up of pension schemes.

In the previous year, the group paid an uncovered total of 4p, but this time the proposed final is cut to 0.5p, bringing the total distribution to 2p.

"We could have afforded to pay more," Mr Kirk said, "but we have to be certain we can pay next year and the year after."

Like most industrial groups, Frederick Cooper has been striving for productivity gains, extending stringent cost controls - the increase in overheads was held to 2 per cent over the year - and rationalising the workforce was cut by 10 per cent to 1,500 people.

Against a background of differences between the two men had not been great and had only arisen after lengthy talks when they were close to agreement.

Over the weekend Mr Locke, who now controls more than 75 per cent of Blystad, made a further appeal to the remaining shareholders to accept. He intends taking the company private as soon as possible.

Streamlining at Dale Electric

Dale Electric International, the Yorkshire-based power systems group, is streamlining its operations with the creation of one principal UK subsidiary from its three main offshoots and the sale of non-core UK and overseas companies.

It has also sold the first phase of its property in Ashford, Kent, for £750,000. Negotiations continue for the disposal of the remainder.

Stainless Metalcraft back in the black

Stainless Metalcraft, the USM-quoted medical and engineering group, achieved a sharp turnaround in the 12 months to August 31 with a pre-tax profit of £352,535, against losses of £255,756.

Turnover rose from £3.8m to £10.4m. Earnings were 4.1p (losses 3.3p) and there is a return to the dividend list with a payment of 1p.

Extraordinary items amounted to £161,152, mainly costs attributed to the decision to withdraw from the low-margin general contracting and fabrication business early in the next financial year.

The company intends to change its name to Ferraris Group.

Blystad objectors stay with company

Two of the directors of Blystad Group who objected to the successful hostile offer from Abbot Holdings are staying with the new company.

Mr MA McDowell and Mr Paul Bews have resigned from the Blystad board, along with the three members of the Norwegian Blystad family. However, they are remaining on the board of KCA Drilling and other subsidiaries of the group.

An adviser to Abbot, a private company set up by Mr Alistair Locke, said that the

growing pressure on margins, Mr Kirk warned that "the ongoing effect of the 1992 productivity gains will undoubtedly help but there is little scope for further cost savings without harming the production capacity of the group."

Cooper was willing to accept margin pressure as a necessary price for selling extra market share, especially in the architectural products division which accounts for 60 per cent of sales.

Overall turnover was only

fractionally lower at £82.8m (£82.8m).

Within that total, export sales rose by 11 per cent to £15.9m. At the operating profit level - £4.33m against £5.37m - returns from metal finishing

were higher, thanks partly to buoyant sales in Germany, but those from electrical products were lower. Operating profits from architectural products were maintained.

Earnings per share were 2.3p (3.5p) basic and 5.1p (6p) fully diluted.

Lowndes Lambert pays up to £1.9m for specialist broker

By Andrew Jack

LOWNDES LAMBERT, the insurance broker which was floated last year, has acquired Crowley Colosso Holdings, which owns a fine arts and jewellery specialist broker.

The initial consideration is £1.4m, comprising £997,000 in cash and the issue to the vendors of 263,456 new Lowndes shares.

Further consideration in shares or cash to a cap of £1.9m will be paid in proportion to any brokerage income during the next two financial

years to October in excess of the most recent year's earned brokerage fees till last June.

Mr Richard Shaw, Lowndes' chairman, said he would be surprised if the additional payments exceeded half of the capped limit.

The accounts for Colosso for the year to June 30 1991 showed pre-tax profits of £53,000 on turnover of £1.37m.

The new shares will rank equally with existing shares, and the vendors have pledged not to dispose of them for 12 months after completion.



REED INTERNATIONAL P.L.C.

(the "Issuer")
£50,000,000 11 1/8 per cent Bonds 1994
(the "Bonds")

(of which £30,000,000 was issued as the Initial Tranche and represents the total of the Bonds outstanding)

NOTICE OF EARLY REDEMPTION

On behalf of the Issuer, S.G. Warburg & Co. Ltd. hereby gives notice to the holders of the Bonds that in accordance with Condition 4(c) of the Bonds the Issuer will redeem all of the Bonds then outstanding on 21 December 1992 (the "Redemption Date").

The Bonds will be redeemed at 100 1/8 per cent of their principal amount on the Redemption Date in accordance with the Terms and Conditions applicable to the Bonds.

Payments of principal will be made on or after the Redemption Date at the specified office of any of the Paying Agents listed below against surrender of the Bonds together with all unexpired Coupons, failing which the amount of the missing unexpired Coupons will be deducted from the sum due for payment. Any amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon prior to the expiry of the period of five years after the date on which the Coupon would otherwise have become due. Coupon No. 8 maturing on 21 December 1992 should be presented for payment in the usual manner in respect of the interest payment due on that day but otherwise interest will cease to accrue on the Bonds from the Redemption Date.

Bonds and matured Coupons will become void unless presented for payment in the case of Bonds, within a period of ten years from the Redemption Date, and, in the case of matured Coupons, within a period of five years from the first due date for payment thereof.

Principal Paying Agent

S.G. Warburg & Co. Ltd.
2 Finsbury Avenue
London EC2M 2PA

Paying Agents

Kreditbank S.A. Luxembourg
43 Boulevard Royal
Luxembourg

Swiss Bank Corporation
Aeschenvorstadt 1
CH-4002 Basel
Switzerland

4 November 1992

TENDER NOTICE

UK GOVERNMENT ECU TREASURY BILLS

For tender on 10 November 1992

1. The Bank of England announces the issue by Her Majesty's Treasury of ECU 1,000 million nominal of UK Government ECU Treasury Bills, for tender on a bid-yield basis on Tuesday, 10 November 1992. An additional ECU 50 million nominal of Bills will be allotted directly to the Bank of England.

2. The ECU 1,000 million of Bills to be issued by tender will be dated 12 November 1992 and will be in the following maturities: ECU 300 million for maturity on 10 December 1992; ECU 300 million for maturity on 11 February 1993; ECU 400 million for maturity on 13 May 1993.

3. All tenders must be made on the printed application forms available on request from the Bank of England. Completed application forms must be lodged, by hand, at the Bank of England, Securities Office, Threadneedle Street, London not later than 10.30 a.m., London time, on Tuesday, 10 November 1992. Payment for Bills allotted will be due on Thursday, 12 November 1992.

4. Each tender at each yield for each maturity must be made on a separate application form for a minimum of ECU 500,000 nominal. Tenders above this minimum must be in multiples of ECU 100,000 nominal.

5. Tenders must be made on a yield basis (calculated on the basis of the actual number of days to maturity and a year of 360 days) rounded to two decimal places. Each application form must state the maturity date of the Bills for which application is made, the yield bid and the amount tendered for.

The Bank of England will announce early on 10 November the maximum yield for each maturity of Bills on offer which will be acceptable in the tender. Any tenders at yields above the relevant maximum yield will be rejected. The maximum yields for each maturity of Bills on offer will be published on the following wire services: Reuters (pages GBAA - AF); Teletext (pages 647-75) and Topic (page 44751).

6. Notification will be despatched on the day of the tender to applicants whose tenders have been accepted in whole or in part. For applicants who have requested credit of Bills in global form to their account with Euro-clear or CDE, Bills will be credited in the relevant systems against payment. For applicants who have requested definitive Bills, Bills will be available for collection at the Securities Office of the Bank of England after 1.30 p.m. on Thursday, 12 November 1992, provided cleared funds have been credited to the Bank of England's ECU Treasury Bills Account No. 59005616 with Lloyds Bank Plc, International Banking Division, PO Box 19, Hays Lane House, 1 Hays Lane, London SE1 2HA. Definitive Bills will be available in amounts of ECU 10,000, ECU 50,000, ECU 100,000, ECU 500,000, ECU 1,000,000, ECU 5,000,000 and ECU 10,000,000 nominal.

7. Her Majesty's Treasury reserve the right to reject any or part of any tender.

8. The arrangements for the tender are set out in more detail in the Information Memorandum on the UK Government ECU Treasury Bill programme issued by the Bank of England on behalf of Her Majesty's Treasury on 28 March 1992, and in supplements to the Information Memorandum. All tenders will be subject to the provisions of that Information Memorandum (as supplemented) and to the provisions of this notice.

9. The ECU 50 million of Bills to be allotted directly to the Bank of England will be for maturity on 13 May 1993. These Bills may be made available through sale and repurchase transactions to the market makers listed in the Information Memorandum (as supplemented) in order to facilitate settlement.

Any Bills of any maturity on offer not allotted in the tender will be allotted to the Bank of England. Such Bills may subsequently be sold into the secondary market or made available through sale and repurchase transactions to the market makers listed in the Information Memorandum (as supplemented).

10. Copies of the Information Memorandum (and supplements to it) may be obtained at the Bank of England. UK Government ECU Treasury Bills are issued under the Treasury Bills Act 1877, the National Loans Act 1968 and the Treasury Bills Regulations 1968 as amended.

Bank of England
3 November 1992

COMPANY NEWS: UK

T&N poised to make acquisition in Germany

By Kevin Done, Motor Industry Correspondent

T&N, one of the leading UK automotive component makers, is at an advanced stage of negotiations to make its first significant acquisition in Germany.

It has held talks with three possible takeover targets, but it is understood that the most probable candidate is Goetze, a components maker with a leading world position in the manufacturing of piston rings, an important engine component.

T&N, which had a turnover last year of £1.36bn, is a leading producer of engine components specialising in piston products, as well as bearings and friction parts, but it has lacked hitherto a strong base in Germany, the leading vehicle producer in Europe.

Mr Colin Hope, T&N chairman and chief executive, has previously indicated that the planned acquisition in Ger-

many could cost up to £100m. The company is planning to finance the move through debt rather than a share issue.

Goetze, which has its headquarters in Burscheid, near Leverkusen, is still 82.4 per cent family-owned. It had a turnover worldwide last year of DM386m (£359m) and has a workforce of about 8,000, of which some 6,000 are in Germany.

The company has six plants in Germany, including one acquired in Dresden in eastern Germany last year, which also produces piston rings. It also has plants in the US, France and Turkey and minority interests in Austria and India.

An acquisition of Goetze would significantly increase the geographic spread of T&N's operations. Goetze last year derived 36 per cent of its turnover from Germany, 29 per cent from other European Community countries, 18 per cent from North America and

3 per cent from Asia.

As a privately-owned German company few financial details are published, but it is understood that Goetze's profits have fallen significantly and that it has recently traded close to break-even.

German component makers have been coming under a growing financial squeeze as hard-pressed vehicle makers increasingly look for cheaper sources of supply.

German vehicle makers are increasing their purchase of components from the UK, where suppliers already had a considerable cost advantage over German producers, even before the recent substantial devaluation of sterling.

T&N is seeking to add a strong technology base in Germany, but it believes that a significant acquisition there would also improve its access to supply the country's vehicle makers from its components plants outside Germany.

Possible new US bidder for TVS

By Raymond Snoddy

TVS ENTERTAINMENT, the south of England ITV company which has lost its franchise, has had a new approach from the US, which could lead to a higher bid for the company.

The approach has been made through TCV Capital, an \$800m (£490m) investment arm of Trust, the Los Angeles money management company.

It comes as the offer document for a bid worth £38.2m from International Family Entertainment for the TVS company is being finalised.

IFE runs The Family Channel, a cable television channel devoted to wholesome entertainment which has more than 66m subscribers in the US.

TVS shares, which before the offer in September were as low as 34p, rose 4 1/2p to 28p yesterday.

Senior TVS executives were uncertain who was ultimately behind the new approach or how serious it was. One suggested possibility was Mr Alan Hirschfeld, a media entrepreneur and a former head of Columbia Pictures. Mr Hirschfeld has built a stake of more than 6 per cent in TVS.

US investors are interested in TVS for two main reasons. The chief is the UK company's American subsidiary MTM and its library of programmes such as Hill Street Blues and Lou Grant. But TVS is also seen as a potential vehicle for entering the UK and continental European programme production market.

Earlier this year Mr Randolph Agnew, the TVS chairman, took the view that selling the company would be the best way of realising value for shareholders. The IFE offer would mean 25p for ordinary shareholders and 45p for preference shareholders.

The offer has generated considerable opposition particularly from preference shareholders. Mr James Gatward, former chief executive of TVS, is also opposed to the IFE offer and said he would be willing to carry out a restructuring of the company he founded to ensure its survival.

Ansbacher agrees S African offer

By Roland Rudd

HENRY ANSBACHER, the UK merchant bank, has agreed terms for a takeover by the First National Bank of South Africa which includes a higher payment to minority shareholders.

The offer, which will be sent to shareholders shortly, values Ansbacher at a slight premium to its current market value of £52m.

It is the first time a South African bank has acquired a British bank. First National plans to expand Ansbacher, which specialises in South African debt, to service its South Africa-based multinational clients.

Pargesa, the Swiss investment group controlled by Mr Paul Desmarais, the Canadian financier, and Mr Albert Frère, the Belgian financier, has been keen to sell

its 62 per cent stake for more than two years.

Along with Kuwaiti-controlled Wafac Interinvest, which has another 11 per cent, Pargesa has accepted an offer believed to be in the region of yesterday's closing price of 28p.

However, Mr Richard Fenhalls, chairman, could not recommend that price to minority shareholders, which are now to be offered at least 10 per cent more at a price above 30p a share.

Mr Fenhalls, who was brought in to rescue the bank from near collapse in 1985, is expected to relinquish the chair within six months but continue his connection with the bank as a non-executive director.

First National has made it clear that it intends to replace Mr Fenhalls and most of the directors with its own appointees. The

only senior board members to stay on will be Mr Gordon Ashm, a director of the bank, and Mr William Guinness and Mr David Squire, directors of the holding company.

First National has told Ansbacher that it intends to keep most of the 97 staff.

The South Africans approached Ansbacher in May when it learnt that Mr Fenhalls was resisting a takeover by Singer & Friedlander.

Ansbacher's return to profit it made pre-tax profits of £1.5m (£1.1m) in the six months to end-June following losses of £3.2m for 1991 - will be underlined in the offer document containing details of increased profits for the nine months to the end of September.

Shareholders' funds exceed £80m with only a small amount of corporate leading.

Powerscreen up 18% on lower costs

By Jane Fuller

POWERSCREEN International, the Northern Ireland-based maker of mobile screening and stone crushing equipment, increased interim pre-tax profits by 18 per cent, in spite of the decline in the UK construction sector and weakness of the dollar.

The pre-tax figure rose to £11.2m from £9.43m, restated at a lower level to include the write-off of R & D spending. Powerscreen's share price responded with a 13p rise to 283p.

Turnover rose 22 per cent to £51.3m (£42m). Included for the first time was Finlay Engineering, which contributed £5.5m. Another acquisition called Mithro, a maker of agricultural equipment, chipped in £6.8m (£1.3m). Together they accounted for about 10 per cent of profits.

Mr Shay McKeown, chairman, said reasons for the continued growth included low-cost production helped by use of sub-contract labour and standardised products, "catering for customer needs rather than our own vanities" and "avoiding overheads".

The profit figure would have been £450,000 better if the dollar-sterling exchange rate had stayed the same.

The impact of the weak dollar on translation of US figures showed through in the decline



Shay McKeown, chairman: "avoiding overheads".

In the North American share of turnover from 38 to 31 per cent. The UK's share slipped from 31 to 29 per cent in spite of help from acquisitions.

This lost ground was more than made up by rapid sales expansion in continental Europe, which accounted for 30.22 per cent of sales, and in south-east Asia. Big increases

in infrastructure spending in Indonesia, Malaysia and Singapore, for instance, helped Brown Lenox to push up sales to £10.9m (£9.5m) in spite of contraction in the UK.

Powerscreen Distribution, the biggest subsidiary, saw sales advance by 4 per cent to £18.9m. Mr McKeown said increased sales of larger

screening units had helped offset dollar and UK weaknesses.

Interest costs were again negligible. After the £5.3m acquisition of CPV, a maker of stainless steel containers, debt stood at £1.5m. The group would be cash positive by the year-end, he added.

Fully diluted earnings per share rose to 9.6p (8.3p). The interim dividend goes up to 1.8p (1.7p).

COMMENT

Powerscreen's nimbleness in switching to more buoyant markets when established beats say is amply illustrated by its vigorous penetration of south-east Asian markets. That part of the world - with considerable potential for infrastructure development - is being talked of as a third leg to the business alongside Europe and North America. Short term, the company will receive a fillip from the pound's devaluation, as from its latest acquisition. Full-year pre-tax profit is forecast to rise to more than £22m from £18.5m, a prospective p/e of nearly 15. Its strong track record, continued overseas growth and recovery potential in the US and UK argue for a small premium. Some might say the premium is there if account is taken of the low tax charge and high market value relative to turnover. After a good run, the stock remains a strong hold.

Consumers' Association joins disapproval of Dan-Air deal

By Jane Fuller

THE CHORUS of disapproval at the government's decision not to refer British Airways' takeover of Dan-Air to the Monopolies and Mergers Commission gathered force yesterday with the Consumers' Association slating the outcome.

"We are appalled," said Mr Derek Prentice, assistant director. "It reduces competition. When consumers have less choice, they lose out."

Mr Prentice and Sir Michael Bishop, chairman of British Midland, both said that it might have been better for competition if Dan-Air had gone bust.

In that case several airlines could have enhanced their scheduled networks by picking up the popular routes, rather than allowing "the dominant airline to grow even more dominant," as Mr Prentice put it.

Sir Michael contended that the government had had "the wool pulled over its eyes by

BA" and had swept competition issues under the carpet. The decision simply helped BA to cut its costs, and hence its losses, at Gatwick. The result was a commercial benefit to BA.

He argued that fewer jobs would have been lost if Dan-Air had collapsed and its routes taken on by several airlines. "The more airlines participate, the more jobs because staff are duplicated and you don't get the benefits of scale."

He referred to the Civil Aviation Authority's view that the takeover raised serious competition issues - although the CAA did not go so far as to recommend referral to the MMC.

Aggrieved competitors, which also include Virgin Atlantic and Air UK, are taking legal advice on whether the government's decision can be challenged.

They are also calling for an independent watchdog body that might be called "Ofair",

similar to the regulators of privatised utilities.

A longer term thrust is to seek changes to the rules affecting slots at Heathrow so that BA's hold on about 38 per cent of them might be weakened.

BA replied that other airlines had had the chance to do a deal with Davies & Newman, Dan-Air's parent, but it was the only one prepared to mount a rescue.

Its establishment of a low-cost operation at Gatwick would benefit consumers and its post-merger 21 per cent share of that airport's slots did not amount to domination.

Jobs had been saved and redundancy packages were better than in a liquidation, trade creditors had been protected and many travellers' plans had not been wrecked.

BAA, Gatwick's landlord, stressed that it would be good for the airport to have BA, with its international marketing clout, as a big operator.

Thames Water Interim Results

for the half year ended 30 September 1992

Turnover up 15% to £502m
Profit before tax up 5% to £124m
Earnings per share up 6% to 30.1p
Interim Dividend per share up 8% to 6.9p
Capital investment ahead of programme

"It has been a good first half. Strong management and improved efficiency have done much to offset fewer property disposals, a decline in metered income and the effects of difficult trading conditions in our enterprise businesses. We expect further progress in the second half.

"Our water services customers are now benefiting from our massive investment in improved quality and service. The recent agreement with OFWAT on prices for the next two years is a good deal for both customers and shareholders."

Roy Watts

Sir Roy Watts
Chairman

Thames Water Plc 14 Cavendish Place London W1M 9DJ

The interim dividend will be paid on 5 February, 1993 to shareholders on the register on 4 December, 1992. Shareholders will again have the scrip dividend option. The interim report will be posted on 15 December, 1992. Information on the scrip option will also be sent out on 15 December, 1992 to those shareholders who have not already elected to receive shares instead of cash.



Scottish Met cuts loss to £0.5m

By Roland Rudd

SCOTTISH Metropolitan Property, Scotland's leading property investment company, made a pre-tax loss of £499,583 and passed its final dividend for the year ended August 15.

This compares with a loss of £3.37m after an exceptional charge of £11.6m to cover write-downs and bank fees for renegotiating debt payments in the previous year.

Net asset value per share fell to 113.8p from 145.4p. The main reason for this year's loss is the increase in the net interest charge to £20.7m (£14m) charged through the profit and loss account.

Only £280,000 of interest was capitalised, compared to £8.86m, following completion of the group's development programme.

Mr Scott Cairns, who was appointed managing director in January, said the account, which reflected a policy was not to capitalise interest beyond practical completion of a development.

The developments include Saltire Court, 66 per cent let and Hay Weight House, unlet, in Edinburgh, and National House, 5 per cent let, in Manchester.

"If I increase letting revenue it will flow directly to the profit and loss account," said Mr Cairns.

In spite of net property sales of £31.8m, rental income rose by 16 per cent to £22.6m (£19.4m) with revenue from properties up from £18.7m to £21.4m.

The valuation of the group's properties at August 15 was £285.7m, which reflected an overall decline of 8 per cent compared with the book value.

As the group warned at the end of September, there is no final dividend. An interim of 1.5p (2.53p) was paid in August.

Borrowings were £170.3m (£201.3m). There were losses per share of 0.88p compared with losses of 9.99p.

Simpsons suspended on bid

By Tim Burt

SHARES in Simpsons of Cornhill, owners of the famous City chop house, were suspended yesterday after the board received a takeover bid for the Nottingham-based restaurants group.

Mr Paul Reece, managing director, said he had requested a 48-hour suspension following an approach from a UK venture company.

Premising to disclose the identity of the bidder before the end of the week, Mr Reece

said there was considerable corporate interest in the group which comprises Simpsons of Cornhill and the Jamaica Inn in the City and the Dell'Ugo and Pello bistros in London's west end.

The bidder is not connected to the group of dissident shareholders currently seeking the overthrow of the current board, he added.

The rebel group, led by Mr Robert Klapp, former chairman of Select Appointments, confirmed they had not been approached by bidders seeking

to buy their shares - estimated at 29 per cent of the total.

The bitter struggle for control of the company centred on allegations that the board had abandoned its strategy of developing a chain of themed chop house restaurants.

The rebels claimed the company had been made more vulnerable to outside bids by the acquisition and costly refurbishment of restaurants such as Dell'Ugo in Soho.

Mr Reece, however, claimed the company was healthy and set for further expansion following its small pre-tax profit of £80,000 for the last full year.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corresponding dividend	Total for year	Total last year
Cooper (Fred)fin	0.5	Feb 1	2.5	2	4
Grand Centralint	0.45	Feb 26	0.45	-	1.15
Powerscreenint	1.81	Jan 22	1.7	-	6
Scot Metro Propfin	nil	-	1.87	1.5	4.4
Scot Nat Trustfin	3.05	Jan 7	3.05	8.85	8.85
Stainless Metalfin	1	Jan 20	nil	-	nil
Thames Waterint	6.9	Feb 5	6.4	-	19.2
TIP Europefin	0.761	Jan 5	1.26	1.4	1.82

Dividends shown pence per share net except where otherwise stated. For increased capital, \$USM stock.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interim or final and the subdivisions shown below are based mainly on last year's results.

	Interim	Final
ACT	Nov 18	Nov 18
Charter Consolidated	Nov 12	Nov 12
Chryse	Nov 12	Nov 12
King & Spence	Nov 11	Nov 11
Lombard Lombard	Nov 11	Nov 11
Powerscreen	Nov 11	Nov 11
Savile Industries	Nov 11	Nov 11
Ungate	Nov 10	Nov 10
Fluoro	Nov 24	Nov 24
Applied Metals	Nov 24	Nov 24
Hogg Robinson	Nov 18	Nov 18
Scottish Value Trust	Nov 11	Nov 11

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Diary Section. Runs from 26th November 1992 - 30th January 1994 and shows a week to view, international public holidays, number of days passed and left in the year together with tax and calendar week numbers. Plus four months of the 1993 calendar on each page.

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The FT Pocket Diary has a week to view diary section and contains 34 pages of business and travel information. It has white pages and is available in black leather, burgundy *bonded leather and black leathercloth. It comes with a detachable Personal Telephone Directory which tucks inside the back cover of the diary.

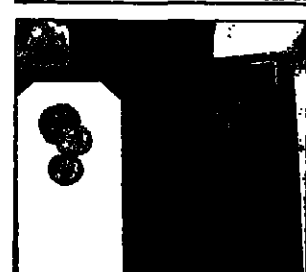
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Pocket Diary, black leathercloth	PC		12.09		10.55		10.85	
FT Pink Pocket Diary	PP		14.00		12.40		12.85	
Slimline Pocket Diary	SP		12.15		10.60		10.90	
Wallet Diary	WD		23.00		20.05		20.60	
Personal Organiser	POL		51.59		48.10		47.90	
PERSONALISATION								
Initials only (up to 4 characters)	I		2.47		2.10		2.10	
Initials and Surname (up to 20 characters)	IS/N		4.41		3.75		3.75	
							TOTAL	

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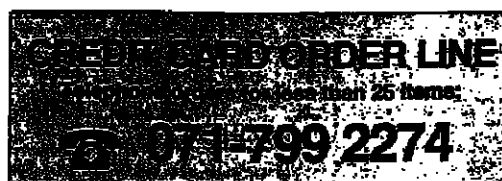
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	Year					1992		Since			
	Nov 3	Nov 2	Oct 30	Oct 29	Oct 28	High	Low	High	Low		
FT-SE 100	2705.6	2687.8	2658.3	2642.3	2650.4	2534.2	2737.8	2281.0	2737.8 11:50-92 22:7:84	866.9 1379.4 21:1:86	
FT-SE Mid 250	2658.8	2541.9	2521.6	2513.8	2515.3	2530.3	2825.0	2157.8	2825.0 20:5:92	21:1:86 16:4:5	
FT-SE-A 350	1303.5	1294.9	1281.5	1274.5	1277.8	1235.7	1342.7	1103.1	1342.7 11:5:92	14:1:86	
Hourly	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
FT-SE 100	2717.2	2702.3	2702.3	2705.7	2704.4	2702.8	2706.5	2698.1	2705.1	2713.4	2697.7
FT-SE Mid 250	2560.2	2548.1	2555.6	2554.7	2551.0	2551.1	2557.3	2556.9	2558.2	2560.7	2552.7
FT-SE-A 350	1306.4	1302.1	1301.9	1305.1	1302.8	1302.1	1303.7	1300.4	1303.3	1308.7	1300.0

Account Dealing Dates		
*First Dealings: Oct 19	Nov 2	Nov 16
Option Declarations: Oct 29	Nov 12	Nov 26
Last Dealings: Oct 30	Nov 13	Nov 27
Account Day: Nov 9	Nov 23	Dec 7

*New time dealings may take place from 8.30am two business days earlier.

British Aerospace shares were wanted and gained 6% to 149½p. The stock is favoured by agency broker Henderson Crosthwaite and Mr Brian Newman at Henderson believes the shares to be a buy because "the share price discounts the current uncertainties and the recent decline of sterling will help recovery prospect". Volume reached 6.1m.

Speculation that APV would be acquired by the parent company be on the receiving end of

next presidential term security. Glaxo, helped by a Wertheim Schroder recommendation, was up 23 before eating with the market to close 15 1/2. The 100,000 shares listed were bought at 93 1/2, making Europe's largest IPO. The deal was generating both of them in its second quarterly sector review.

SmithKline Beecham gained 12 to 540 in the 'A's and ICI improved 24 to 1060p.

The long-awaited but widely expected downgrade of Barclays' and NatWest's ratings was not a surprise. The downgrade produced a bout of heavy trading and - much to the surprise of marketmakers - nearly 3 per cent decline in Barclays shares. The stock settled 10 lower at 340p, having fallen to 330p early in the day.

BSW forecast a 350m loss for 1995, a 100m loss for 1996 and a 150m loss for 1997. The forecast was a major surprise, and was a major factor in the 10p fall.

advance in Smiths Industries, which closed 8 up at 32 3/4.

Shares in William Cook, which reports interim results without, eased a penny to 14 1/2.

A squeeze was seen in a number of transport stocks. These included BAA, up 5 at 75 1/4, and P&O which jumped 12 to 46 1/4.

In the firm drinks sector, Bass jumped 15 to 57 1/4, helped by a buy recommendation from James Capel. Early talk that the company was planning a money-raising exercise to build a war chest reignited old stories about Lloyds Chemicals. While the rumour found little substance among analysts, few expressed surprise. Kingfisher being cash-rich and known to be casting its eye not only at the domestic market but also Europe. After

Additional information on the FT-SE Actuaries Share Indices is published in Saturday issues. Lists of constituents are available from The Financial Times Limited, One Southwark Bridge, London SE1 8HL. The FT-SE Actuaries Share Indices Service, which covers a range of electronic and paper-based products, is related to these indices. It is available from FTSE45 at the same address. The FT-SE 100, the FT-SE 250 and the FT-SE 350 are also available from FTSE45 at the same address.

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BRITISH FUNDS - Cont.

[illegible][illegible]

8.51	8.57	Trees 12½ pc 2003-05	126½ ml	+13	126½	116½	8.91	8.81	2½ pc 24½	(197.7)	105½	+½	186½	86½	3.87	3.81
10.88	6.81	8pc 2002-08½	95½	-16	96½	85½	8.58	8.60	4½ pc 30½	(135.1)	108½	+½	187½	91½	3.67	3.60
9.18	6.91	Trees 11½ pc 2003-07	196½	+16	191½	170½	8.76	8.71	Prospective real redemption rate on projected inflation of (1)							

[illegible]

0.28	7.20	9pc 2012-A	181%	+6%	163%	94%	3.68	8.85	African Dev II 1% 2010-	113%	+3%	116%	105%	9.82	9.28
0.28	7.16	Traas 5-ly pc 2009-12+1	70%	+5%	71%	82%	7.78	8.61	Asian Dev IO 4% pc 2009	109%	+4%	110%	107%	8.34	9.05
0.28	7.11	7-ly pc 2012-15+	90%	+6%	91%	87%	8.60	8.77	Bham II 1% pc 2012	113%	-	114	100%	10.11	9.91

Hydro Quebec 15pc 2011..	138%	+/-	141%	130%	10.60	10.27
Laclek 13 1/2 pc 2006.....	129 1/2	-	127 1/2	116 1/2	10.67	9.95
Liverpool 3 1/2 pc Irred....	35	-	35	30	10.00	-

8.08	7.57	Consolidated 2 1/2 pc	28 1/2	+1/2	28 3/4	24 1/2	8.84	-	4 1/4 pc II, 2022	117 1/2	-	118 1/4	103 1/4	-	471
18.88	7.91	Trees 2 1/2 pc	27 7/8	+1/2	29	24 1/2	8.97	-	Und Mex States 164 pc 2008	127 1/2	-	128 1/2	121 1/2	12.92	12.45

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Light buying thereafter helped December slowly regain momentum, as it crept tentatively forward for the rest of the session with a bout of

The contract finished at 744, up 30 on the previous session and around 22 points above its estimated fair value premium to cash of about 17. Turnover was 7,824 contracts. Investors showed renewed enthusiasm for traded options, trading turnover climbing to

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LONDON SHARE SERVICE

AMERICANS

Company	Price	Change	1992	1991	1990	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959	1958	1957	1956	1955	1954	1953	1952	1951	1950	1949	1948	1947	1946	1945	1944	1943	1942	1941	1940	1939	1938	1937	1936	1935	1934	1933	1932	1931	1930	1929	1928	1927	1926	1925	1924	1923	1922	1921	1920	1919	1918	1917	1916	1915	1914	1913	1912	1911	1910	1909	1908	1907	1906	1905	1904	1903	1902	1901	1900	1899	1898	1897	1896	1895	1894	1893	1892	1891	1890	1889	1888	1887	1886	1885	1884	1883	1882	1881	1880	1879	1878	1877	1876	1875	1874	1873	1872	1871	1870	1869	1868	1867	1866	1865	1864	1863	1862	1861	1860	1859	1858	1857	1856	1855	1854	1853	1852	1851	1850	1849	1848	1847	1846	1845	1844	1843	1842	1841	1840	1839	1838	1837	1836	1835	1834	1833	1832	1831	1830	1829	1828	1827	1826	1825	1824	1823	1822	1821	1820	1819	1818	1817	1816	1815	1814	1813	1812	1811	1810	1809	1808	1807	1806	1805	1804	1803	1802	1801	1800	1799	1798	1797	1796	1795	1794	1793	1792	1791	1790	1789	1788	1787	1786	1785	1784	1783	1782	1781	1780	1779	1778	1777	1776	1775	1774	1773	1772	1771	1770	1769	1768	1767	1766	1765	1764	1763	1762	1761	1760	1759	1758	1757	1756	1755	1754	1753	1752	1751	1750	1749	1748	1747	1746	1745	1744	1743	1742	1741	1740	1739	1738	1737	1736	1735	1734	1733	1732	1731	1730	1729	1728	1727	1726	1725	1724	1723	1722	1721	1720	1719	1718	1717	1716	1715	1714	1713	1712	1711	1710	1709	1708	1707	1706	1705	1704	1703	1702	1701	1700	1699	1698	1697	1696	1695	1694	1693	1692	1691	1690	1689	1688	1687	1686	1685	1684	1683	1682	1681	1680	1679	1678	1677	1676	1675	1674	1673	1672	1671	1670	1669	1668	1667	1666	1665	1664	1663	1662	1661	1660	1659	1658	1657	1656	1655	1654	1653	1652	1651	1650	1649	1648	1647	1646	1645	1644	1643	1642	1641	1640	1639	1638	1637	1636	1635	1634	1633	1632	1631	1630	1629	1628	1627	1626	1625	1624	1623	1622	1621	1620	1619	1618	1617	1616	1615	1614	1613	1612	1611	1610	1609	1608	1607	1606	1605	1604	1603	1602	1601	1600	1599	1598	1597	1596	1595	1594	1593	1592	1591	1590	1589	1588	1587	1586	1585	1584	1583	1582	1581	1580	1579	1578	1577	1576	1575	1574	1573	1572	1571	1570	1569	1568	1567	1566	1565	1564	1563	1562	1561	1560	1559	1558	1557	1556	1555	1554	1553	1552	1551	1550	1549	1548	1547	1546	1545	1544	1543	1542	1541	1540	1539	1538	1537	1536	1535	1534	1533	1532	1531	1530	1529	1528	1527	1526	1525	1524	1523	1522	1521	1520	1519	1518	1517	1516	1515	1514	1513	1512	1511	1510	1509	1508	1507	1506	1505	1504	1503	1502	1501	1500	1499	1498	1497	1496	1495	1494	1493	1492	1491	1490	1489	1488	1487	1486	1485	1484	1483	1482	1481	1480	1479	1478	1477	1476	1475	1474	1473	1472	1471	1470	1469	1468	1467	1466	1465	1464	1463	1462	1461	1460	1459	1458	1457	1456	1455	1454	1453	1452	1451	1450	1449	1448	1447	1446	1445	1444	1443	1442	1441	1440	1439	1438	1437	1436	1435	1434	1433	1432	1431	1430	1429	1428	1427	1426	1425	1424	1423	1422	1421	1420	1419	1418	1417	1416	1415	1414	1413	1412	1411	1410	1409	1408	1407	1406	1405	1404	1403	1402	1401	1400	1399	1398	1397	1396	1395	1394	1393	1392	1391	1390	1389	1388	1387	1386	1385	1384	1383	1382	1381	1380	1379	1378	1377	1376	1375	1374	1373	1372	1371	1370	1369	1368	1367	1366	1365	1364	1363	1362	1361	1360	1359	1358	1357	1356	1355	1354	1353	1352	1351	1350	1349	1348	1347	1346	1345	1344	1343	1342	1341	1340	1339	1338	1337	1336	1335	1334	1333	1332	1331	1330	1329	1328	1327	1326	1325	1324	1323	1322	1321	1320	1319	1318	1317	1316	1315	1314	1313	1312	1311	1310	1309	1308	1307	1306	1305	1304	1303	1302	1301	1300	1299	1298	1297	1296	1295	1294	1293	1292	1291	1290	1289	1288	1287	1286	1285	1284	1283	1282	1281	1280	1279	1278	1277	1276	1275	1274	1273	1272	1271	1270	1269	1268	1267	1266	1265	1264	1263	1262	1261	1260	1259	1258	1257	1256	1255	1254	1253	1252	1251	1250	1249	1248	1247	1246	1245	1244	1243	1242	1241	1240	1239	1238	1237	1236	1235	1234	1233	1232	1231	1230	1229	1228	1227	1226	1225	1224	1223	1222	1221	1220	1219	1218	1217	1216	1215	1214	1213	1212	1211	1210	1209	1208	1207	1206	1205	1204	1203	1202	1201	1200	1199	1198	1197	1196	1195	1194	1193	1192	1191	1190	1189	1188	1187	1186	1185	1184	1183	1182	1181	1180	1179	1178	1177	1176	1175	1174	1173	1172	1171	1170	1169	1168	1167	1166	1165	1164	1163	1162	1161	1160	1159	1158	1157	1156	1155	1154	1153	1152	1151	1150	1149	1148	1147	1146	1145	1144	1143	1142	1141	1140	1139	1138	1137	1136	1135	1134	1133	1132	1131	1130	1129	1128	1127	1126	1125	1124	1123	1122	1121	1120	1119	1118	1117	1116	1115	1114	1113	1112	1111	1110	1109	1108	1107	1106	1105	1104	1103	1102	1101	1100	1099	1098	1097	1096	1095	1094	1093	1092	1091	1090	1089	1088	1087	1086	1085	1084	1083	1082	1081	1080	1079	1078	1077	1076	1075	1074	1073	1072	1071	1070	1069	1068	1067	1066	1065	1064	1063	1062	1061	1060	1059	1058	1057	1056	1055	1054	1053	1052	1051	1050	1049	1048	1047	1046	1045	1044	1043	1042	1041	1040	1039	1038	1037	1036	1035	1034	1033	1032	1031	1030	1029	1028	1027	1026	1025	1024	1023	1022	1021	1020	1019	1018	1017	1016	1015	1014	1013	1012	1011	1010	1009	1008	1007	1006	1005	1004	1003	1002	1001	1000	999	998	997	996	995	994	993	992	991	990	989	988	987	986	985	984	983	982	981	980	979	978	977	976	975	974	973	972	971	970	969	968	967	966	965	964	963	962	961	960	959	958	957	956	955	954	953	952	951	950	949	948	947	946	945	944	943	942	941	940	939	938	937	936	935	934	933	932	931	930	929	928	927	926	925	924	923	922	921	920	919	918	917	916	915	914	913	912	911	910	909	908	907	906	905	904	903	902	901	900	899	898	897	896	895	894	893	892	891	890	889	888	887	886	885	884	883	882	881	880	879	878	877	876	875	874	873	872	871	870	869	868	867	866	865	864	863	862	861	860	859	858	857	856	855	854	853	852	851	850	849	848	847	846	845	844	843	842	841	840	839	838	837	836	835	834	833	832	831	830	829	828	827	826	825	824	823	822	821	820	819	818	817	816	815	814	813	812	811	810	809	808	807	806	805	804	803	802	801	800	799	798	797	796	795	794	793	792	791	790	789	788	787	786	785	784	783	782	781	780	779	778	777	776	775	774	773	772	771	770	769	768	767	766	765	764	763	762	761	760	759	758	757	756	755	754	753	752	751	750	749	748	747	746	745	744	743	742	741	740	739	738	737	736	735	734	733	732	731	730	729	728	727	726	725	724	723	722	721	720	719	718	717	716	715	714	713	712	711	710	709	708	707	706	705	704	703	702	701	700	699	698	697	696	695	694	693	692	691	690	689	688	687	686	685	684	683	682	681	680	679	678	677	676	675	674	673	672	671	670	669	668	667	666	665	664	663	662	661	660	659	658	657	656	655	654	653	652	651	650	649	648	647	646	645	644	643	642	641	640	639	638	637	636	635	634	633	632	631	630	629	628	627	626	625	624	623	622	621	620	619	618	617	616	615	614	613	612	611	610	609	608	607	606	605	604	603	602	601	600	599	598	597	596	595	594
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INVESTMENT TRUSTS - Cont.

Notes	Price	1992	1991	1990	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959	1958	1957	1956	1955	1954	1953	1952	1951	1950	1949	1948	1947	1946	1945	1944	1943	1942	1941	1940	1939	1938	1937	1936	1935	1934	1933	1932	1931	1930	1929	1928	1927	1926	1925	1924	1923	1922	1921	1920	1919	1918	1917	1916	1915	1914	1913	1912	1911	1910	1909	1908	1907	1906	1905	1904	1903	1902	1901	1900	1899	1898	1897	1896	1895	1894	1893	1892	1891	1890	1889	1888	1887	1886	1885	1884	1883	1882	1881	1880	1879	1878	1877	1876	1875	1874	1873	1872	1871	1870	1869	1868	1867	1866	1865	1864	1863	1862	1861	1860	1859	1858	1857	1856	1855	1854	1853	1852	1851	1850	1849	1848	1847	1846	1845	1844	1843	1842	1841	1840	1839	1838	1837	1836	1835	1834	1833	1832	1831	1830	1829	1828	1827	1826	1825	1824	1823	1822	1821	1820	1819	1818	1817	1816	1815	1814	1813	1812	1811	1810	1809	1808	1807	1806	1805	1804	1803	1802	1801	1800	1799	1798	1797	1796	1795	1794	1793	1792	1791	1790	1789	1788	1787	1786	1785	1784	1783	1782	1781	1780	1779	1778	1777	1776	1775	1774	1773	1772	1771	1770	1769	1768	1767	1766	1765	1764	1763	1762	1761	1760	1759	1758	1757	1756	1755	1754	1753	1752	1751	1750	1749	1748	1747	1746	1745	1744	1743	1742	1741	1740	1739	1738	1737	1736	1735	1734	1733	1732	1731	1730	1729	1728	1727	1726	1725	1724	1723	1722	1721	1720	1719	1718	1717	1716	1715	1714	1713	1712	1711	1710	1709	1708	1707	1706	1705	1704	1703	1702	1701	1700	1699	1698	1697	1696	1695	1694	1693	1692	1691	1690	1689	1688	1687	1686	1685	1684	1683	1682	1681	1680	1679	1678	1677	1676	1675	1674	1673	1672	1671	1670	1669	1668	1667	1666	1665	1664	1663	1662	1661	1660	1659	1658	1657	1656	1655	1654	1653	1652	1651	1650	1649	1648	1647	1646	1645	1644	1643	1642	1641	1640	1639	1638	1637	1636	1635	1634	1633	1632	1631	1630	1629	1628	1627	1626	1625	1624	1623	1622	1621	1620	1619	1618	1617	1616	1615	1614	1613	1612	1611	1610	1609	1608	1607	1606	1605	1604	1603	1602	1601	1600	1599	1598	1597	1596	1595	1594	1593	1592	1591	1590	1589	1588	1587	1586	1585	1584	1583	1582	1581	1580	1579	1578	1577	1576	1575	1574	1573	1572	1571	1570	1569	1568	1567	1566	1565	1564	1563	1562	1561	1560	1559	1558	1557	1556	1555	1554	1553	1552	1551	1550	1549	1548	1547	1546	1545	1544	1543	1542	1541	1540	1539	1538	1537	1536	1535	1534	1533	1532	1531	1530	1529	1528	1527	1526	1525	1524	1523	1522	1521	1520	1519	1518	1517	1516	1515	1514	1513	1512	1511	1510	1509	1508	1507	1506	1505	1504	1503	1502	1501	1500	1499	1498	1497	1496	1495	1494	1493	1492	1491	1490	1489	1488	1487	1486	1485	1484	1483	1482	1481	1480	1479	1478	1477	1476	1475	1474	1473	1472	1471	1470	1469	1468	1467	1466	1465	1464	1463	1462	1461	1460	1459	1458	1457	1456	1455	1454	1453	1452	1451	1450	1449	1448	1447	1446	1445	1444	1443	1442	1441	1440	1439	1438	1437	1436	1435	1434	1433	1432	1431	1430	1429	1428	1427	1426	1425	1424	1423	1422	1421	1420	1419	1418	1417	1416	1415	1414	1413	1412	1411	1410	1409	1408	1407	1406	1405	1404	1403	1402	1401	1400	1399	1398	1397	1396	1395	1394	1393	1392	1391	1390	1389	1388	1387	1386	1385	1384	1383	1382	1381	1380	1379	1378	1377	1376	1375	1374	1373	1372	1371	1370	1369	1368	1367	1366	1365	1364	1363	1362	1361	1360	1359	1358	1357	1356	1355	1354	1353	1352	1351	1350	1349	1348	1347	1346	1345	1344	1343	1342	1341	1340	1339	1338	1337	1336	1335	1334	1333	1332	1331	1330	1329	1328	1327	1326	1325	1324	1323	1322	1321	1320	1319	1318	1317	1316	1315	1314	1313	1312	1311	1310	1309	1308	1307	1306	1305	1304	1303	1302	1301	1300	1299	1298	1297	1296	1295	1294	1293	1292	1291	1290	1289	1288	1287	1286	1285	1284	1283	1282	1281	1280	1279	1278	1277	1276	1275	1274	1273	1272	1271	1270	1269	1268	1267	1266	1265	1264	1263	1262	1261	1260	1259	1258	1257	1256	1255	1254	1253	1252	1251	1250	1249	1248	1247	1246	1245	1244	1243	1242	1241	1240	1239	1238	1237	1236	1235	1234	1233	1232	1231	1230	1229	1228	1227	1226	1225	1224	1223	1222	1221	1220	1219	1218	1217	1216	1215	1214	1213	1212	1211	1210	1209	1208	1207	1206	1205	1204	1203	1202	1201	1200	1199	1198	1197	1196	1195	1194	1193	1192	1191	1190	1189	1188	1187	1186	1185	1184	1183	1182	1181	1180	1179	1178	1177	1176	1175	1174	1173	1172	1171	1170	1169	1168	1167	1166	1165	1164	1163	1162	1161	1160	1159	1158	1157	1156	1155	1154	1153	1152	1151	1150	1149	1148	1147	1146	1145	1144	1143	1142	1141	1140	1139	1138	1137	1136	1135	1134	1133	1132	1131	1130	1129	1128	1127	1126	1125	1124	1123	1122	1121	1120	1119	1118	1117	1116	1115	1114	1113	1112	1111	1110	1109	1108	1107	1106	1105	1104	1103	1102	1101	1100	1099	1098	1097	1096	1095	1094	1093	1092	1091	1090	1089	1088	1087	1086	1085	1084	1083	1082	1081	1080	1079	1078	1077	1076	1075	1074	1073	1072	1071	1070	1069	1068	1067	1066	1065	1064	1063	1062	1061	1060	1059	1058	1057	1056	1055	1054	1053	1052	1051	1050	1049	1048	1047	1046	1045	1044	1043	1042	1041	1040	1039	1038	1037	1036	1035	1034	1033	1032	1031	1030	1029	1028	1027	1026	1025	1024	1023	1022	1021	1020	1019	1018	1017	1016	1015	1014	1013	1012	1011	1010	1009	1008	1007	1006	1005	1004	1003	1002	1001	1000	999	998	997	996	995	994	993	992	991	990	989	988	987	986	985	984	983	982	981	980	979	978	977	976	975	974	973	972	971	970	969	968	967	966	965	964	963	962	961	960	959	958	957	956	955	954	953	952	951	950	949	948	947	946	945	944	943	942	941	940	939	938	937	936	935	934	933	932	931	930	929	928	927	926	925	924	923	922	921	920	919	918	917	916	915	914	913	912	911	910	909	908	907	906	905	904	903	902	901	900	899	898	897	896	895	894	893	892	891	890	889	888	887	886	885	884	883	882	881	880	879	878	877	876	875	874	873	872	871	870	869	868	867	866	865	864	863	862	861	860	859	858	857	856	855	854	853	852	851	850	849	848	847	846	845	844	843	842	841	840	839	838	837	836	835	834	833	832	831	830	829	828	827	826	825	824	823	822	821	820	819	818	817	816	815	814	813	812	811	810	809	808	807	806	805	804	803	802	801	800	799	798	797	796	795	794	793	792	791	790	789	788	787	786	785	784	783	782	781	780	779	778	777	776	775	774	773	772	771	770	769	768	767	766	765	764	763	762	761	760	759	758	757	756	755	754	753	752	751	750	749	748	747	746	745	744	743	742	741	740	739	738	737	736	735	734	733	732	731	730	729	728	727	726	725	724	723	722	721	720	719	718	717	716	715	714	713	712	711	710	709	708	707	706	705	704	703	702	701	700	699	698	697	696	695	694	693	692	691	690	689	688	687	686	685	684	683	682	681	680	679	678	677	676	675	674	673	672	671	670	669	668	667	666	665	664	663	662	661	660	659	658	657	656	655	654	653	652	651	650	649	648	647	646	645	644	643	642	641	640	639	638	637	636	635	634	633	632	631	630	629	628	627	626	625	624	623	622	621	620	619	618	617	616	615	614	613	612	611	610	609	608	607	606	605	604	603	602	601	600	599	598	597	596	595	594	5
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NEW YORK STOCK EXCHANGE COMPOSITE P

Continued on next page

3 pm November 3

Stock	P	52 Wk High	Low	Last	Change	Stock	P	52 Wk High	Low	Last	Change	Stock	P	52 Wk High	Low	Last	Change	Stock	P	52 Wk High	Low	Last	Change				
AT&T	44.00	109.4	34.1	27	35 1/2	+	Overseas	0.80	15	79.0	24.1	36.1	+	Lunda Inc	0.98	17	30.4	22.4	22.4	+	Seagate	0.60	16	18.1	15.1	+	
Avco	0.16	43.7	14.7	17	16 1/2	+	Dynalene	0.20	27	60.7	17.4	18.1	+	Laureate	1.4	101	12.1	11.1	12.1	+	SEL Corp	0.15	33	1.1	20.1	27.1	+
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3 pm November 3

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AMERICA

Subdued trading as US goes to the polls

Wall Street

US SHARE prices weakened slightly in subdued trading as voters went to the polls to elect a new President, writes Patrick Harverton in New York.

By 1pm the Dow Jones Industrial Average was down 11.34 at 3,250.87. The more broadly based Standard & Poor's 500 was also weaker at mid-session, down 3.03 at 430.75, while the Amex composite eased 0.02 to 362.69 and the Nasdaq composite dropped 2.94 to 804.93. Turnover was 131m shares by 1pm, and declines outpaced rises by 806 to 774.

Analysts attributed some of the early selling to profit-taking following Monday's advance. News of a 0.3 per cent decline in September's leading economic indicators also contributed, suggesting that the economy remains trapped in a weak growth phase.

Overall, however, sentiment was positive about the likely outcome of the presidential

vote. Some observers said that the market was in a "no-lose" situation. If Mr Bill Clinton wins, the market would be pleased because its expectations would have been met and because a Democrat president would immediately stimulate economic activity with an aggressive fiscal package.

On the other hand, if President George Bush earns a stunning victory, analysts said that the market would celebrate because, ultimately, equity investors will always favour a Republican over a Democrat.

The big corporate story remained General Motors, following the shake-up on Monday of the company's senior management. The car manufacturer's stock rose another 3% to \$32 1/2 in turnover of 3.2m shares as investors welcomed the appointment of Mr John Smale as chairman and Mr Jack Smith as chief executive, and the introduction of new younger managers to run a company burdened by high costs and a shrinking market share.

Oil stocks weakened across the board. Chevron fell \$1 1/2 to \$69 1/2, Texaco slipped \$1 1/2 to \$69 1/2, Occidental dropped \$1 1/2 to \$69 1/2, and Phillips shed \$1 1/2 to \$69 1/2.

Berlitz International plunged \$2 1/2 to \$20 in busy trading after the Japanese publisher announced that he wanted to renegotiate the terms of the acquisition in the wake of the big drop in Berlitz's third quarter operating income.

On the Nasdaq market, Coventry fell \$1 1/2 to \$19 1/2 after the company reported third-quarter net profits of 29 cents a share, up from the 20 cents a share earned a year ago but slightly below analysts' forecasts.

Canada

TORONTO stocks slipped at midday as the TSX 300 fell 13.5 to 3,365.5 in turnover of 31.7m. Royal Bank of Canada lost \$1 1/2 to \$32 1/2 after raising its provisions for loan losses for the fourth quarter.

EUROPE

Dollar's strength helps to lift continent

BOURSES rose on a stronger dollar and the early closing markets, particularly, were lifted by Wall Street's overnight gains, writes Our Markets Staff. But for some, the stimuli were stronger, and more specific.

PARIS closed just below the day's high, encouraged by Monday's interest rate cut and on hopes that there was scope for further easing. A strong Maf and a firm dollar also lifted the market. The CAC-40 index ended 44.53 or 2.6 per cent higher at 1,786.93, in good turnover of FF2.9bn, although dealers said a substantial part was options-related.

Rises were across the board, with Elf up FF5.50 to FF355.50, Alcatel FR19 higher at FF699 and Lafarge FF15.10 up at FF709.

But Rhône-Poulenc CIs dropped FF9 to FF502 after its unit Institut Merieux International confirmed that until November 1988 it exported a blood product for haemophiliacs which had not been tested for the AIDS virus or tested to kill the virus. Shares in Merieux were temporarily suspended and later lost FF740 or 9.6 per cent to FF740.

FI-SE Actuaries Share Indices

November 3		Open		10.30		11.00		12.00		13.00		14.00		15.00		Close	
FT-SE Eurotrack 100	1040.76	1041.87	1041.54	1038.12	1038.56	1038.61	1038.21	1038.21	1038.21	1038.21	1038.21	1038.21	1038.21	1038.21	1038.21	1038.21	1038.21
FT-SE Eurotrack 200	1107.37	1107.88	1108.02	1106.87	1105.49	1105.30	1104.23	1104.23	1104.23	1104.23	1104.23	1104.23	1104.23	1104.23	1104.23	1104.23	1104.23

Base values 1000 (1000) (1000) (1000) (1000) (1000) (1000) (1000) (1000) (1000) (1000) (1000) (1000) (1000) (1000) (1000) (1000) (1000)

FF7,000. Peugeot also backed the firmer trend, losing FF4 or FF5.11 on news that registrations of cars made by the Peugeot-Citroen group tumbled by 11.1 per cent in October.

FRANKFURT had another quiet day, with German stock market turnover estimated at little more than Monday's DM3.1bn as the DAX index rose 12.43 to 1,485.00.

Mr Thomas Nolten, a dealer with B Metzler in Frankfurt, said that the direct effect of the dollar and Wall Street's overnight gains was that traders, including DFB DAX futures traders, felt obliged to close their short positions.

Big DAX stocks moved accordingly although in chemicals, where the bad news came

from Bayer on Monday, the big gains were reserved for BASF and Hoechst, up DM4.50 to DM411 and DM5 to DM236 respectively, while Bayer put on only DM1.90 to DM256.40.

Constructions performed well, led by Holzmann which closed DM30 higher at DM30. The sector still has good orders for the short- and medium-term, noted Mr Nolten.

STOCKHOLM jumped 2.3 per cent in heavy trading on the stronger dollar. The Allshare index rose 16.5 to 729.8 in strong turnover of SKr766m after SKr454m.

Dollar-sensitive issues rose, while demand remained strong for Astra ahead of its nine-month report, due on November 11. The A shares were up SKr13 to SKr588, while the B

shares rose SKr12 to SKr570.

COPENHAGEN's banks and shipping shares led the Danish advance as the KFX index gained 1.01 to 72.62 in turnover of DKr179m. Danske Bank and Unibank recovered some of their recent sharp declines to close DKr5 and DKr3 higher at DKr109 and DKr204 respectively, while D/S Svendborg, part of the export-dependent shipping and oil group, AP Moeller, rose DKr3,500 to DKr108,500.

HELSINKI jumped 5.3 per cent, the Hex index closing 40.4 higher at 758.6 in turnover of FM63.2m, extending its recovery to some 30 per cent in just over two weeks. The banks and finance house index gained 14.1 per cent, reflecting the sharp fall in Finnish interest rates over the last few weeks.

AMSTERDAM closed firmer, boosted by a strong rise in Akzo shares in the wake of its pleasing third-quarter results. The CBS Tendency index rose 1.1 to 103.3.

Also rose FI 6.30 or 4.9 per cent to FI 134.00 after its 0.4 per cent increase in third-quarter net profit pleased the market, since it had expected a decline. The firmer dollar helped to

lift Ahold, Aegon, Royal Dutch and Unilever.

MILAN ended up but well off early highs as demand fell back after the official fixing. The Comit index rose 1.36 to 450.61 in turnover estimated around Tuesday's 1,226.3bn.

Among leading stocks, Fiat rose L111 to L1,800 and Montedison added L7 to L1,242. Stet rose L50 to L1,330 but Mediobanca fell L240 to L1,200.

ZURICH lost some of its early gains as the dollar declined in the afternoon, and New York opened flat. The SMI index put on 11.5 to 1,931.1 after a morning high of 1,940.4. BRUSSELS rose in brisk trading following a three-day weekend. The Bel-20 index added 16.26 or 1.1 per cent to 1,556.22. Petrofina continued its recent recovery with a rise of Bfr230 to Bfr5310.

SOUTH AFRICA

JOHANNESBURG ended firm in quiet trading, boosted by weakness in the financial rand. The overall index closed 14 up at 3,031, just off a high of 3,033, as golds rose 9 to 824. The industrial index added 2 to 4,014.

New issue flood looms over Bombay equities

R C Murthy and Stefan Wagstyl assess prospects for India's stock markets after this year's scandals

A sharp decline in India's scandal-hit stock markets in the past month is making life increasingly difficult for companies seeking to raise funds in the capital markets.

The Bombay Stock Exchange's (BSE) 30-share index dropped by 14.5 per cent between October 1 and last Friday, including a 5.3 per cent fall last week. After Friday's ban on short sales, and closing for settlement work on Monday, it recovered 3.3 per cent to 2,928 yesterday, but volume was thin and institutional interest was limited.

Confidence has been hit by lingering concern about the scandal in the inter-bank securities market, in which leading stockbrokers are involved, and by the shock of mass tax raids on brokers' offices two weeks ago.

Investors have also been swamped by a flood of new issues, including rights issues. Companies are planning to raise an estimated Rs150bn (\$5.3bn) in equity and equity-linked bonds in the financial year which started in April, compared with Rs57.4bn in the whole of 1991-92.

It is surprising that signs of financial indegation did not appear earlier. The scandal first erupted in April and punctured a 15-month rally in equity prices in the secondary market. The BSE 30-share index slid from its April peak as financial institutions reported heavy scandal-linked losses and the exchange closed for a month.

However, investors' appetite for primary issues has remained strong, primarily because of the extremely large discounts offered in the primary market. Lured by mass-marketing campaigns involving posters and newspaper advertisements, investors flocked to tag issues - that is to buy in the primary market

and quickly sell the stock in the secondary market.

The market's recent plunge has closed the stage window of opportunity as prices in the secondary market have fallen, sharply reducing the discounts offered in the new issue market. Mr R Sankaran, managing director of Ind-Global Financial Services, a leading securities company, says: "The investor is becoming more mature and consequently more discriminating in subscribing to new issues and rights issues. He has a choice now."

The first big company to have run into difficulties is Ceat Tyres, one of India's largest tyre makers and a member of the RPO group, a Calcutta-based industrial conglomerate. Ceat initially set a deadline of October 14 for acceptance of a Rs1.1bn rights issue, but has extended the offer to October 31 to give shareholders more time to respond. It said application forms had been held up in the post.

But the poor response from shareholders may be more readily explained by the fact that the discount between the offer price of Rs75 and the market price has dropped in the past month from Rs60 to Rs37.

Other companies could well avoid the same fate if they

stick to the deep discounts traditionally offered in the Bombay stock market.

For example, Investment Bankers see little difficulty in the issues planned by Gujarat Fertilisers, a large fertiliser producer, and HCL-Hewlett Packard, an electronics group linked to Hewlett Packard, of the US. Both are launching convertible bonds where the conversion price is only one-third of the market price.

Mr Udayan Bose, chairman of Credit Capital Finance, a leading investment bank, believes that the good issue will go through. He also believes that investors will, if necessary, sell existing holdings to buy competitively priced new stock.

If new issues have to be cancelled or postponed, companies will lose a valuable source of new capital, just as they are gearing up to invest to take advantage of the opportunities created by the reformist policies of the government of Mr Narasimha Rao, the prime minister. With bank credit tight and commercial lending rates running at around 18 per cent, equity capital has been a key source of cheap funds since dividend yields average around 1.3 per cent.

Moreover, companies have only been able to raise funds freely through equity issues since March this year, when the government abolished a rule which required issue prices to be set by a bureaucrat - the capital issues controller. The controller typically insisted on deep discounts in order to favour state-owned financial institutions, which are India's principal investors.

Under the new system, issues have to be vetted by the Securities and Exchange Board of India, the securities watchdog, which examines claims made in prospectuses.

ASIA PACIFIC

Pacific Rim waits for US outcome

IN THE absence of Tokyo, trading in the Pacific Rim was influenced by the US presidential election, writes Our Markets Staff. Some markets dipped on fears that a Clinton victory would make exporting to the US more difficult.

THE HANG SENG was pulled below 3,200 by the pull-off in China Light shares after the power company reported lower than expected earnings.

The Hang Seng index shed 33.73 to 3,197.44, and turnover was unchanged at HK\$2.58bn. China Light fell HK\$1.75 to HK\$35.75 and was the second most active stock, topped only by HSBC Holdings, which lost 50 cents to HK\$23.

KUALA LUMPUR's composite index closed at an all-time peak for the fourth consecutive day, up 4.01 at 653.07. Profit-taking was evident in the afternoon but it was well absorbed. Volume rose to a record 267.9m shares from 205.7m.

SINGAPORE retreated on profit-taking after the recent sharp gains. The Straits Times index lost 11.67 at 1,405.87 in volume of 156.7m shares, against 133.6m.

F & N fell 60 cents to S\$9.90, Sembawang Shipyard slipped 30 cents to S\$7.55 and Keppel eased 15 cents to S\$5.95.

SEOUL fell for the first time in seven sessions on profit-taking, the index receding 16.45 to 606.52. Turnover dipped to Won453.4bn from Won678.6bn. Kookmin and Posco, both heavily weighted, shed Won900 to Won19,000 and Won900 to Won26,500 respectively.

AUSTRALIA closed mixed after thin trading, due to the Melbourne Cup holiday in Victoria. The All Ordinaries index finished 2.7 up at 1,412.8 after an intraday low of 1,403.9. Turnover was A\$152.1m.

BHP lost 8 cents to a 20-month low of A\$10.74 after Moody's Investors Service said that BHP's controlling stake in Foster's Brewing had weakened its financial position.

NEW ZEALAND was steady as softness in Lion Nathan before its annual results, due

today, cancelled out slight firmness in other stocks. The NZSE-40 capital index ended just 0.18 firmer at 1,372.20 on turnover of only NZ\$17m.

Lion dipped a further 4 cents to NZ\$3.89 in spite of analysts' forecasts that the brewer will report a profit before extraordinary items of NZ\$100m to NZ\$115m, up from NZ\$70.93m a year ago.

TAIWAN ended narrowly mixed in sluggish trading, with the weighted index a mere 0.15 higher at 3,559.66. Turnover remained thin at T\$7.97bn.

MANILA retreated after last week's advances, the composite index losing 8.86 to 1,352.52 in combined turnover of 140.7m pesos, after Friday's 288m. The market was closed on Monday.

Exotic spots for the future

Sara Webb reviews a survey of emerging markets

Sri Lanka, Iceland, Iran and Uruguay have been tipped as a few of the more exotic emerging markets of the future, according to a recent survey* on investor attitudes to equity and bond markets, and some of the more adventurous international fund managers plan to invest in these countries within the next two years.

They would also consider investing in Colombia, India and Israel. However, better-known emerging markets such as Portugal, Greece and South Korea are expected to attract the most new investment over the same timescale.

The response to the survey, conducted by Euromoney Publications, suggests that rather than looking for money for the next emerging market in which they might double their

money in a year, institutional investors plan to remain conservative with regard to geographical diversification.

Respondents said they were exposed to 16 out of the survey's list of 42 "emerging and sub-emerging" markets. Mexico and Portugal jointly led the list of emerging markets in which participants already invest, followed by South Africa, which the survey also classified as an emerging market. They were followed by Malaysia, Taiwan, Thailand, Brazil and Turkey.

Respondents said they also invested in Argentina, Chile, Greece, Indonesia, Israel, South Korea, the Philippines and Venezuela.

The survey points out that growing investor interest in the emerging markets will increase the demand for spe-

cialist analysts, thus creating new opportunities for the broking community.

The report says: "Almost certainly within five years, those investment banks which are currently revered for their research on French, German or Dutch equities will be aggressively competing for the top-ranked Polish and Czech equity analysts; shortly afterwards, they will presumably be doing the same for Russian and Ukrainian gurus."

The survey was based on the responses of 136 international institutional investors, including large insurance companies, pension funds and other fund managers responsible for managing a total of \$1,759bn.

*European Brokers & Analysts Survey 1992 is produced by Euromoney Publications.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS										FRIDAY OCTOBER 30 1992					DOLLAR INDEX									
Figures in parentheses show number of lines of stock										US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % Change	Gross Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % Change	Year ago price
Australia (88)	113.59	-1.7	108.97	88.98	92.80	108.21	-1.3	4.48	115.80	109.99	90.08	92.74	110.84	153.88	113.39	139.46								
Austria (19)	145.63	-1.8	140.88	114.06	115.72	118.24	-0.2	2.38	148.30	140.71	115.54	118.57	118.48	186.70	139.27	139.32								
Belgium (42)	137.33	-1.9	132.94	107.64	111.95	108.36	+0.0	5.63	139.92	132.77	109.00	112.26	108.39	152.27	135.87	132.98								
Canada (114)	120.35	-1.1	118.51	94.25	98.10	108.24	+1.2	3.22	119.02	112.83	92.72	95.47	108.91	142.12	112.97	141.84								
Denmark (23)	184.80	-1.6	178.90	144.74	150.68	151.74	-0.1	4.61	187.85	178.06	146.20	150.53	151.29	273.94	184.20	282.94								
Finland (15)	66.13	-1.6	64.02	51.73	53.91	58.42	-0.5	2.06	67.33	63.88	52.46	54.91	58.74	86.90	52.84	86.90								
France (101)	144.70	-1.6	140.08	113.32	117.95	120.70	+0.0	3.74	147.05	139.83	114.58	117.98	120.70	188.78	144.70	144.85								
Germany (84)	153.49	-2.7	150.18	81.08	84.36	84.36	-1.1	2.73	150.36	100.52	82.87	85.32	85.32	126.68	103.48	108.91								
Hong Kong (53)	255.52	+0.5	247.38	204.12	208.31	203.60	+0.5	3.51	254.22	241.22	198.05	205.94	202.33	281.48	176.35	188.21								
Ireland (17)	98.42	-0.2	97.52	46.53	48.44	58.56	+1.6	3.48	98.54	65.80	46.38	47.76	58.93	80.96	47.47	70.41								
Japan (479)	103.32	-0.3	100.02	80.92	84.23	80.92	+0.3	1.05	103.59	98.29	80.71	85.11	80.71	140.83	87.27	144.15								
Malaysia (68)	274.54	+1.7	265.77	215.00	223.78	265.71	+1.8	2.47	269.88	266.15	210.31	218.56	260.97	274.54	212.49	203.02								
Mexico (18)	148.92	+2.8	143.21	116.13	120.58	109.81	+2.4	1.19	144.13	138.38	112.54	115.68	140.43	178.77	115.84	132.32								
Netherlands (26)	151.77	-1.1	148.33	118.67	123.73	122.30	+0.7	4.53	153.41	145.58	119.52	123.07	121.48	168.70	147.88	143.83								
New Zealand (14)	37.36	-0.1	36.20	29.26	30.48	30.48	-0.5	3.16	38.52	35.52	30.03	37.84	45.52	37.30	46.32	37.30								
Norway (22)	137.02	-2.2	132.65	107.32	111.70	118.75	+0.7	2.04	140.09	132.92	109.14	112.38	118.55	192.95	136.04	199.19								
Singapore (38)	187.24	+2.8	180.94	164.48	160.78	147.70	+3.0	2.23	181.90	182.08	149.51	153.94	143.39	229.83	179.85	202.76								
South Africa (86)	142.71	-2.9	142.99	115.88	120.41	145.72	+0.0	3.50	132.19	144.40	118.56	146.73	144.29	253.24	144.29	253.24								
Spain (48)	106.57	-2.0	105.10	85.03	88.50	91.86	-0.6	6.53	110.73	105.07	86.27	88.63	92.11	161.72	108.57	154.23								
Sweden (31)	255.07	-0.9	247.98	204.74	208.41	203.67	-0.5	3.58	256.46	242.69	198.51	206.33	202.63	281.48	176.35	188.21								
Switzerland (80)	109.10	-1.1	106.82	85.45	88.89	94.04	-0.4	2.29	110.31	104.84	84.50	86.94	87.34	122.32	95.59	95.05								
United Kingdom (228)	183.34	-0.9	182.19	137.91	138.14	158.12	-1.1	2.46	184.86	156.24	128.22	132.22	136.41	200.07	183.34	180.58								
USA (522)	172.60	+0.9	176.08	126.18	140.71	176.00	+0.9	2.96	170.94	162.41	126.31	137.17	170.98	173.38	160.92	158.55								
Australia (781)	132.21	-1.3	127.99	103.55	107.79	117.58	-0.4	4.00	134.00	127.14	104.40	107.50	117.01	158.85	132.21	142.22								
Nordic (101)	142.00	-1.2	137.49	112.41	115.76	117.13	+0.4	2.49	143.71	136.36	111.96	115.29	116.85	188.22	141.24	187.49								
Pacific Basin (714)	108.47	-0.2	105.00	84.95	88.42	88.89	+0.3	1.40	106.70	103.14	84.89	87.20	88.48	141.87	90.73	144.66								
Asia (486)	108.47	-0.2	105.00	84.95	88.42	88.89	+0.3	1.40	106.70	103.14	84.89	87.20	88.48	141.87	90.73	144.66								
North America (538)	169.34	+0.1	163.94	132.64	136.25	169.13	+0.4	2.59	169.13	112.85	96.85	95.40	97.98	143.51	113.80	144.07								
Europe Ex. UK (563)	113.27	-1.6	109.96	87.73	92.36	85.52	+0.0	3.54	115.15	108.26	85.73	92.36	95.83	132.98	113.27	116.40								
Pacific Ex. Japan (242)	159.02	+0.1	153.94	124.56	128.65	145.88	+0.3	3.63	158.81	108.69	92.74	142.71	145.41	175.51	148.00	145.41								
World Ex. US (1887)	119.29	-0.7	115.48	83.44	87.25	101.75	-0.4	2.80	120.09	113.95	93.57	98.34	100.72	145.81	118.16	145.94								
World Ex. Japan (1887)	119.29	-0.7	115.48	83.44	87.25	101.75	-0.4	2.80	120.09	113.95	93.57	98.34	100.72	145.81	118.16	145.94								
World Ex. S. & A. (2149)	136.37	+0.0	132.02	106.82	111.28	122.18	+0.6	2.74	135.32	128.98	106.21	109.36	112.93	150.36	130.04	146.38								
World Ex. Japan (1737)	155.06	+0.1	151.10	121.45	126.48	147.56	-0.3	3.33	154.89	146.97	126.35	128.46	129.48	164.70	155.16	155.16								
The World Index (2208)	136.34	+0.0	131.90	106.78	111.15	123.06	+0.6	2.78	136.92	129.33	106.21	109.32	122.96	150.36	130.45	146.38								